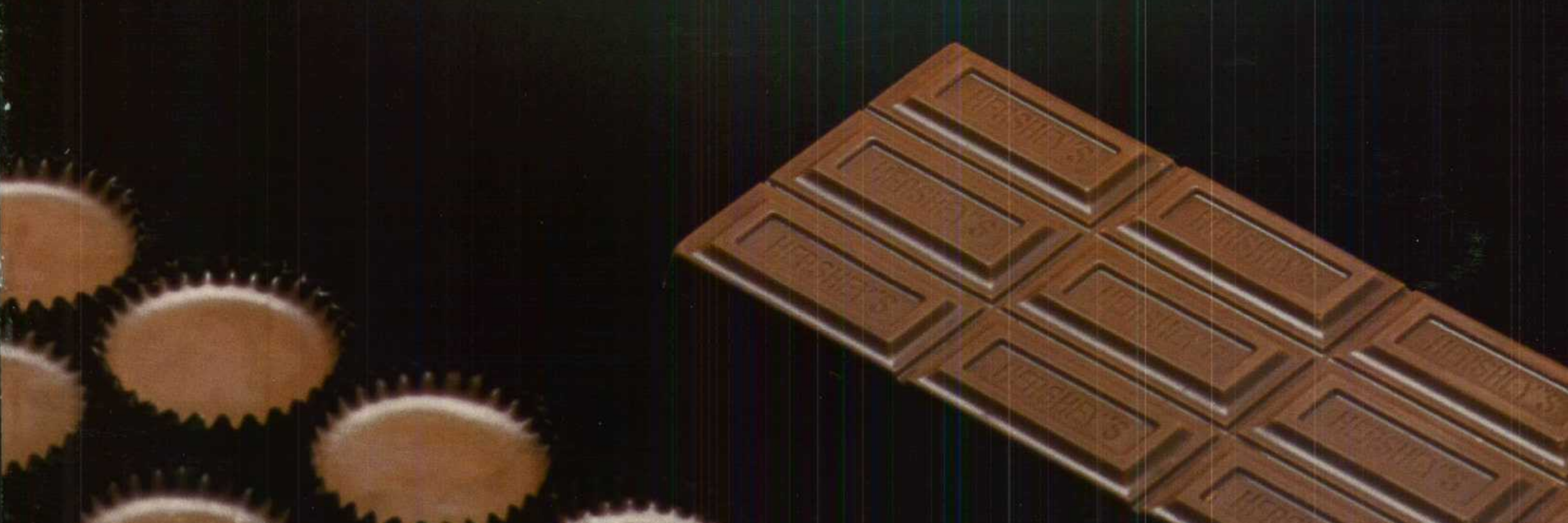
Hershey Foods Corporation 1987 ANNUAL REPORT



Hershey Foods Corporation

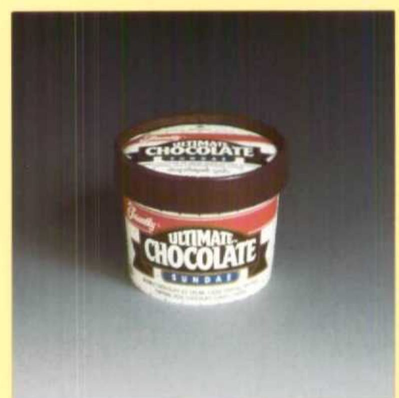
CONSUMER FOODS

Hershey Foods' Consumer Foods segment, which includes Hershey Chocolate U.S.A., Hershey Canada Inc., Hershey International and Hershey Pasta Group, produces a broad line of chocolate, confectionery and pasta products, as well as other food products. Hershey Chocolate U.S.A.'s principal brands are *Hershey's, Reese's, Kit Kat, Luden's* and *Y&S.* Hershey Canada's major brands, in addition to *Hershey, Reese* and *Y&S,* include *Oh Henry!, Life Savers, Lowney, Moirs* and *Planters.* Hershey International consists primarily of export sales, marketing and distribution of chocolate and confectionery products manufactured by Hershey Chocolate U.S.A., and joint venture operations in foreign countries.

Hershey Pasta Group is one of the country's leading pasta manufacturers. The Pasta Group includes eight brands: *American Beauty, San Giorgio, Skinner, Delmonico, P&R, Perfection, Light 'N Fluffy* and *Pastamania.* Distributed throughout the continental U.S., with the exception of Florida and portions of New England, the Pasta Group's brands are recognized leaders in their individual regions.

RESTAURANT OPERATIONS

Friendly Ice Cream Corporation operates a chain of informal family restaurants serving high-quality, moderately-priced menu items and specializing in ice cream. Friendly's more than 840 restaurants are located in the following 15 states: Connecticut, Delaware, Florida, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont and Virginia.



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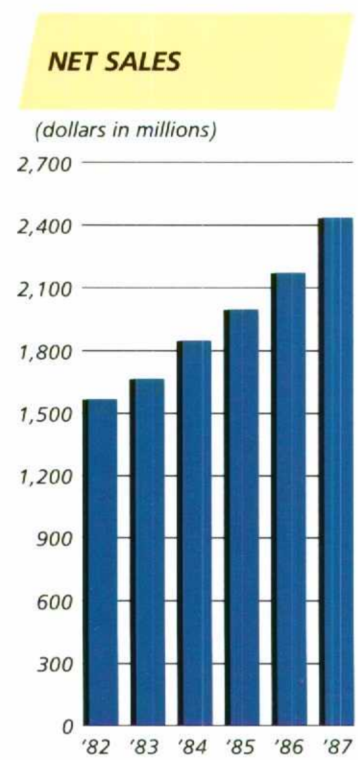
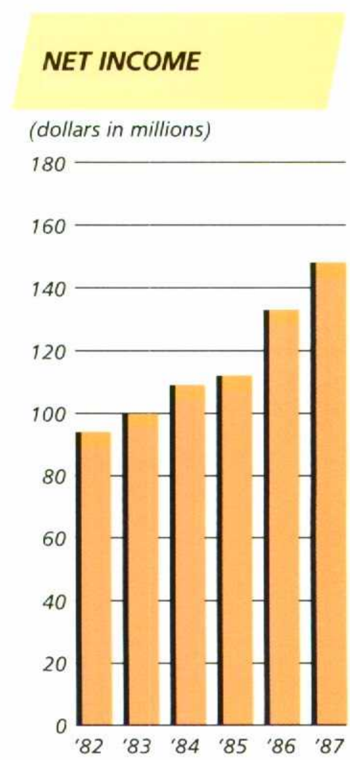
1987 FINANCIAL HIGHLIGHTS

(in thousands of dollars except shares and per share amounts)

	1987	1986	Percent Change
Net sales	**$2,433,793**	$2,169,614	+12
Net income	**148,171**	132,764	+12
Net income per share	**1.64**	1.42	+15
Cash dividends paid per share of Common Stock	**.5800**	.5200	+12
Cash dividends paid per share of Class B Common Stock	**.5250**	.4716	+11
Total cash dividends paid	**51,467**	48,146	+7
Capital additions	**107,663**	135,828	−21
Stockholders' equity at year-end	**832,410**	727,941	+14
Price per share of Common Stock at year-end	**24.50**	24.63	−1
Stockholders' equity per share at year-end	**9.23**	8.07	+14
Outstanding shares at year-end	**90,186,336**	90,186,336	—

All shares and per share information have been restated for the three-for-one stock split effective September 15, 1986. Total outstanding shares at December 31, 1987 of 90,186,336 consisted of 74,889,450 shares of Common Stock and 15,296,886 shares of Class B Common Stock. Net income per share is based on weighted average outstanding shares of 90,186,336 for 1987 and 93,508,322 for 1986. The decrease in weighted average shares outstanding reflects the purchase and retirement of 3,825,000 shares of the Corporation's Common Stock in November 1986. Stockholders' equity per share is based on outstanding shares at year-end for the applicable year.





LETTER TO STOCKHOLDERS

In 1987, Hershey Foods Corporation achieved record net sales and earnings for the ninth consecutive year. While a majority of the Corporation's consolidated net sales increase came from growth in established lines of business, acquisitions also played an important role in the Corporation's profitable growth. Hershey Chocolate U.S.A. (formerly Hershey Chocolate Company), Hershey Canada Inc. and Hershey Pasta Group delivered excellent performances, but Friendly Ice Cream Corporation's results can best be described as fair.

The consolidated gross margin improved as a result of generally stable to lower raw material costs and manufacturing efficiencies associated with unit volume growth, offset somewhat by higher restaurant labor expenses. The operating margin declined slightly, primarily as a result of significantly increased marketing expenditures for the entire Corporation.

Interest expense for the year was considerably higher than 1986 due to the financing associated with the acquisition of the Luden's and Queen Anne confectionery operations and the purchase of the Corporation's Common Stock shares in late 1986, and the acquisition of the Canadian confectionery operations of Nabisco Brands Ltd. in mid-1987. A significantly lower effective income tax rate resulting from the Tax Reform Act of 1986 more than offset the increased interest expense. A lower number of average shares outstanding for the year also had a positive effect on earnings per share.

Hershey Foods' management is dedicated primarily to the long-term, profitable growth of the Corporation. The reduced Federal statutory corporate income tax rate in 1987 has given us the added opportunity to invest for future stockholder value while showing fine year-to-year performance.

Given a choice between maximizing quarterly earnings and the long-term growth of our businesses, we choose the latter. We believe this is the only correct definition of building stockholder value. We are committed to generating increased profits from our current businesses, and at the same time seeking growth through prudent acquisitions which complement a core business or bring us a new thrust in the food category.

There are several strategies we intend to pursue as we work to enhance the Corporation's profitability in the years ahead. Significant investment will be made in the expansion, renewal and rationalization of our present manufacturing and distribution capacity. By doing so, we can ensure that our facilities have the appropriate capacity levels, are efficient, and continue to provide productivity improvements.

We have set an ambitious goal for productivity improvement, at least one percent of sales annually. We are pleased to note that we have invariably exceeded this goal. The dollars saved through productivity improvements help us create and introduce new products and provide greater consumer value which leads to improved sales performance.

Equally important to our long-term growth is investment in advertising and promotion. Market share position is critical to our ability to compete effectively as the consolidation of the U.S. food industry continues. We plan to enhance our current market share positions in the future, but today's world requires ever increasing expenditures in marketing.

In 1970, our advertising and promotion expenditures were 3.6 percent of consolidated net sales. By 1981, that figure had reached 8.5 percent, and in 1987, it was 11.5 percent. Some divisions exceeded that amount and reached at least 13 percent. Our task, however, is not merely to spend more each year. We are dedicated to yield better results for each dollar spent.

Commitment to quality is another element which will help sustain Hershey Foods' long-term growth. Ongoing product and packaging enhancements, continued attention to consumer value improvements, distribution improvements and excellent trade relations help to satisfy customers and consumers.

One element of our Corporation gave us some concern in 1987. Friendly failed to improve upon its previous year's operating results. Our segment of the restaurant business — sit down, table service — had a slight downturn in customer traffic and Friendly was no exception. Part of the reason was a shortage of service workers in some key geographical areas causing a deterioration in service. When we are unable to produce a consistently fine restaurant experience, customer counts drop. The net result is reduced margins. We are working to correct this situation, mainly by attempting to attract and retain additional, well-qualified employees.

We are pleased with the integration of the Luden's and Queen Anne operations and products into Hershey Chocolate U.S.A.'s structure. Product improvements were made; product lines, plant facilities and staffing were rationalized; and a smoothly running organization is in place. We expect to achieve long-term sales gains for Luden's principal brands.

The June 1987 acquisition of the Canadian confectionery operations of Nabisco Brands Ltd. essentially tripled Hershey Foods' sales in Canada, making Hershey Canada Inc. a leading confectioner in that country and enabling it to compete from a position of strength.

Kenneth L. Wolfe and Richard A. Zimmerman

We believe there are synergies inherent in this larger business unit which will enable Hershey Canada to become a more effective competitor. The product lines and technologies of the newly acquired businesses complement very well Hershey Foods' previously existing business and are providing opportunities for incremental growth and increased profitability in Canada.

All these activities were conducted against the backdrop of a strong balance sheet. During the last two years, the Corporation has undertaken a prudent program of borrowing to finance its growth. At year-end 1987, the Corporation's debt as a percentage of total capitalization was 29 percent, resulting in the maintenance of a strong debt rating, which is a central consideration in our strategic planning process. We firmly believe this approach will hold the Corporation in good stead for the long term.

In September, the Corporation's dividend rate was increased, marking the 13th consecutive annual dividend increase. Hershey Foods Common Stock holders received a 12 percent higher cash dividend payment in 1987 than in 1986.

Dr. Ogden C. Johnson, Senior Vice President and Director, retired from the Corporation and from the Board of Directors on January 1, 1988. We acknowledge the valuable contributions, especially in the areas of science and technology and public affairs, which he made during his 14-year career with the Corporation. Edward R. Book, former Chairman of Hershey Entertainment and Resort Company, resigned from the Corporation's Board of Directors on October 1, 1987. John M. Pietruski, Chairman and Chief Executive Officer of Sterling Drug Inc., was elected to the Board of Directors on April 27, 1987.

The year 1987 was replete with major challenges and opportunities for your Corporation. We are proud of the manner in which Hershey Foods' employees responded to these challenges, as well as to the demands of their everyday responsibilities. Their dedication and hard work have enabled the Corporation to continue its steady, profitable growth. The long-term effect of their ongoing efforts is to assure the enhancement of the Corporation's value for all stockholders.

RA Zimmerman KL Wolfe

Richard A. Zimmerman
Chairman of the Board and
Chief Executive Officer

Kenneth L. Wolfe
President and Chief
Operating Officer

Excellent growth from established brands, acquisitions and new products

HERSHEY CHOCOLATE U.S.A.

Hershey Chocolate U.S.A. (formerly Hershey Chocolate Company) achieved record sales and operating income in 1987. Expanded advertising and promotional spending stimulated sales growth in the Division's highly competitive marketplace. Sales growth primarily was attributable to increased unit volume in all major areas of the business, with a majority of the increase coming from established brands. Significant incremental sales growth also was registered as a result of the late 1986 acquisition of the Luden's and Queen Anne confectionery operations.

Effective January 4, 1988, the Division was renamed Hershey Chocolate U.S.A. to more clearly distinguish it from the parent corporation and to eliminate confusion over its geographical relationship to the Corporation's other divisions.

Hershey Chocolate U.S.A.'s confectionery market share remained stable in the grocery store class of trade. Market share gains were achieved in the candy and tobacco distributor category. Gains also were made in the Division's sales to the vending trade.

The increase in operating income resulted from the sales volume increases, relatively stable commodity costs, manufacturing efficiencies associated with unit volume growth, and continued productivity gains in the manufacturing and distribution areas. Operating margin declined slightly due to the increased advertising and promotional spending. These marketing expenditures comprised an important part of the Division's long-term business building strategy.

Cocoa prices experienced relative price stability during 1987 despite continued efforts by the International Cocoa Organization to bolster prices. A fourth consecutive cocoa bean surplus in the 1986-87 crop-year held prices in check for U.S. manufacturers, while other industrialized countries enjoyed a steady decline in prices as a result of the weakened U.S. dollar. While the eventual impact of further market intervention by the International Cocoa Organization cannot be predicted, most commodities' prices ultimately respond to fundamental supply and demand conditions.

Reese's peanut butter cups and *Kit Kat* wafer bar, two established products which are among the top ten candy brands in the U.S., were

Hershey Chocolate U.S.A. continues to bring new products to the marketplace through the cooperative efforts of Research and Development, Manufacturing, Marketing and Sales departments. Here, Line Supervisor T.G. Mace (left) and Senior Food Technologist Bob Larsen inspect the Division's newest creation,* Bar None *candy bar, introduced nationally in the United States in September 1987.

major contributors to the overall record sales performance. *Reese's* peanut butter cups continued the double-digit annual growth trend begun several years ago. A four-cup *Reese's* peanut butter cup king-size item completed test marketing in the first half of 1987 and was expanded nationally during the fourth quarter.

Several packaged candy products also performed well in 1987, including *Hershey's Kisses* chocolates and *Hershey's Miniatures* chocolate bars. Strong sales of the Division's seasonal items contributed to the year's outstanding performance and continue to be a source of solid growth. The Y&S Candies product line continued to expand its leadership position in the licorice-type category of the non-chocolate confectionery business as sales growth significantly outpaced the industry.

In the grocery products category, *Hershey's* syrup achieved record sales during 1987 despite strong competitive activity. *Hershey's* chocolate chips also attained a record level of sales.

The Division's emphasis on new products, another part of the business building strategy, continued in 1987 with the national introduction of *Bar None* candy bar in September. *Bar None* offers a textural variety consisting of chocolate

Senior Employee Development Specialist Jeff Johnson conducts a "Quality Through Excellence" workshop, one of dozens held throughout the year for Hershey Chocolate U.S.A. salaried employees. The workshops underscore the importance of each employee's role in providing quality products and services.

wafers, chocolate cream and chopped peanuts, all covered with *Hershey's* milk chocolate. Based on very positive test market results, *Bar None* was placed in national distribution in September. To date, this product has received widespread acceptance in the marketplace.

Stronger identification with the *Hershey's* brand through revitalized packaging enabled *Hershey's* chocolate-covered granola snack bar to compete more effectively in a category which has seen fierce competition in recent years. In addition, sales of *Whatchamacallit* candy bar responded favorably to a significant weight increase in late 1986 and the addition of a layer of caramel in 1987.

Golden Almond Nuggets chocolates were introduced in selected test markets during 1987. *Golden Almond Nuggets* are one-quarter ounce, individually foil-wrapped, premium quality chocolates containing whole toasted almonds.

The integration of the Luden's and Queen Anne operations and products into Hershey Chocolate U.S.A.'s structure went smoothly. Rationalization of product lines, plant facilities and staffing was completed, and product improvements were made. Long-term sales gains are expected for the principal brands, including *Luden's* cough drops, *5th Avenue* candy bar, *Mello Mint* peppermint patties and *Queen Anne* chocolate covered cherries.

Major capital spending projects were completed during the year to enhance production capacity and improve productivity. A separate chocolate-making operation was established at the Reese

plant in Hershey, Pa., to provide additional capacity for the brands produced at that facility. In addition, a finished goods production line for licorice-type candies was completed.

"Quality Through Excellence" became the productivity improvement theme for Hershey Chocolate U.S.A. in 1987. The entire salaried workforce will participate in the "Quality Through Excellence" program, a training course designed to improve administrative and staff function productivity. "Quality Through Excellence" and other developmental training programs provided Hershey Chocolate U.S.A. employees with over 55,000 hours of training at work sites in 1987. Productivity savings from both administrative and manufacturing functions were directed toward increased marketing spending, as well as toward new product development and the enhancement of product value to the consumer.

HERSHEY CANADA INC.

Hershey Canada Inc. achieved record sales and operating income in 1987, resulting primarily from the acquisition on June 29, 1987, of the assets and trademark rights of Nabisco Brands Ltd.'s Canadian confectionery and snack nut businesses. Solid growth was achieved in the established businesses as well. The acquisition resulted in Hershey Canada becoming one of the major confectionery companies in Canada.

The Canadian confectionery market has been declining in recent years because of the imposition of a Canadian Federal sales tax on confectionery products and price increases by the industry. As a result, the confectionery market has been characterized by fierce competition, excess capacity, and consolidation among manufacturers.

The acquired businesses include bar candy sold under the brands *Oh Henry!* and *Lowney,* chocolate chips under the brand *Chipits,* boxed chocolates sold under the *Moirs* brand name, peanuts and other nuts sold under the *Planters* brand, hard roll candy sold under the brand names *Life Savers* and *Breath Savers,* and gum and chewy candy sold under the *Care*Free* and *Bubble Yum* brands.

Hershey Canada now enjoys market share leadership positions in the hard roll candy, peanuts and baking chip categories, in addition to the share leadership positions held prior to the acquisition in

The introduction of* Reese's *peanut butter cups king-size and* Golden Almond Nuggets *chocolates into test markets during 1987 reflects the Division's ability to build upon proven brand successes. Here, Brands Manager Rob Shelton leads a promotion strategy session with Marketing and Sales personnel. Hershey Chocolate U.S.A. continues to recognize the vital importance of strong market share positions, supporting them where possible with innovative line extensions such as those featured here.

the licorice-type, sundae toppings and liquid milk modifier categories. Hershey Canada holds the second position in boxed chocolates and is a strong third in the important chocolate bar category.

The integration of the new businesses was a major challenge. Hershey Canada was responsible for providing, within a short period of time, the sales, marketing, distribution and administrative functions for the acquired operation. The integration process was the primary focus of activity for Hershey Canada during the second half of 1987.

An important strategy of Hershey Canada is to become a low-cost producer of products in Canada. The acquisition provides opportunities to achieve this goal. Because of age and design, a decision was made to close the Planters facility in Toronto and transfer manufacturing operations to Hershey Canada's plant in Smiths Falls, Ontario. Construction of a new peanut processing facility in Smiths Falls began in September 1987 and is scheduled for completion in the spring of 1988. Every effort is being made to relocate Planters employees to Smiths Falls or to place them with other firms in Toronto.

Hershey Canada's new business combination enables it to compete from a position of strength,

Hershey Chocolate U.S.A. increased its participation in the Children's Miracle Network Telethon, a national fund raising appeal for children's hospitals, during 1987, joining the ranks of other national sponsors. This commitment to providing specialized care for seriously ill children throughout the U.S. draws upon Hershey Foods' more than 80-year legacy of improving the quality of life for both children and adults. Here, Hershey Chocolate U.S.A.'s Marketing Director Mike Holmes (right) presents a $250,000 check to the 1987 National Telethon host, actor/singer John Schneider, during ceremonies telecast nationwide in May.

The acquisition of Nabisco Brands Ltd.'s Canadian confectionery operations in 1987 more than tripled Hershey Canada's sales and transformed it into one of Canada's largest confectionery manufacturers. Here, plant employees Ed Pizale and Faye Wales check production of **Life Savers,** ***one of the acquired brands. Other acquired brands in Canada include*** **Oh Henry!** ***bars and*** **Planters** ***peanuts (also pictured).***

as the known synergies will greatly increase efficiency. In addition to the plant closing mentioned above, another example of these synergies includes the expansion of Hershey's Canadian product line from 80 items to approximately 400 items while reducing the size of the combined sales forces. The acquired product lines and technologies complement very well Hershey Canada's previously existing business and provide opportunities for growth and increased profitability in Canada.

HERSHEY INTERNATIONAL

Export sales of the Corporation's chocolate and confectionery products continued to expand in 1987 as sales in Japan, Okinawa and South Korea exceeded 1986 levels. In addition, several of the Corporation's confectionery products were launched in the Australian market during the year.

Hershey International's licensing ventures progressed well in 1987. *Brown Cow* chocolate-flavored syrup, *Mr. Goodbar* chocolate bar and *Hershey's* milk chocolate bar with almonds were

launched during the year in South Korea. The licensing venture in Japan for *Hershey's* syrup continued to expand.

Hershey International's joint venture in Mexico, Nacional de Dulces, S.A., reported earnings below expectations as high inflation and adverse economic conditions reduced consumer purchasing power. The continuing appeal of *Hershey's Kisses* chocolates and *Hershey's Miniatures* chocolate bars helped the *Hershey's* brands gain market share in this difficult economic environment.

In the Philippines, Philippine Cocoa Corporation remained profitable in 1987. This joint venture affiliate sells milk chocolate products under the *Hershey's* brand and also markets chocolate products under the *Goya* trademark.

AB Marabou, an affiliate in Sweden, substantially improved its earnings from operations in 1987 in comparison with 1986. In 1987, Marabou manufactured *Hershey's Kisses* chocolates under license and launched this new product, which features a distinctive European blend of chocolate, in the Swedish market.

Petybon Industrias Alimenticias, S.A., located in Brazil, made a successful conversion to joint venture status with its new business partner, the Bunge Born Group. In December 1986, Hershey International sold a 55-percent interest in Petybon to Bunge Born, and the two companies combined their pasta operations.

As one of the largest flour and fat suppliers in Brazil, Bunge Born provides significant raw material procurement synergies, as well as access to a large consumer products distribution system.

This new joint venture resulted in increased sales volumes for Petybon and significant savings in administrative costs. These advantages were crucial to maintaining profitability during a period of stringent price controls imposed by the Brazilian government and high interest rates.

HERSHEY PASTA GROUP

Hershey Pasta Group achieved record sales in 1987 for the ninth consecutive year. Sales increases primarily were attributable to volume growth, reflecting continued market penetration, new market expansion, product line extensions and new product development by the Division.

Hershey Pasta Group increased its share of the retail dry pasta market and was the only major manufacturer to achieve a branded share increase for the year. While all brands contributed to the Division's growth, *San Giorgio, P&R* and *Light 'N Fluffy* brands showed particularly strong growth in the high consumption northeastern markets.

Much attention was focused on the *American Beauty* brand, which benefited from a restaging of its line of noodle products, the introduction of a line of specialty products packaged in cartons, and a complete redesign of its package graphics. Initial response to these changes was very encouraging, with the full impact expected to be felt in future years. The Division continued its aggressive market expansion program of the brand, pushing into the Pacific Northwest and expanding its presence in the large northern California market.

Product line extensions, supported by creative marketing programs, also played a key role in building momentum for the Division's brands. Included were the introduction of the *San Giorgio Trio Italiano* product and the continued growth of the tri-color products under the *American Beauty, Skinner* and *Light 'N Fluffy* banners. New television commercials were aired for the *Skinner* brand in 1987. The Division continued to view television advertising as an important element in its marketing program.

Hershey Pasta Group began exploring the market for homestyle pasta products with the development of the recently-acquired G&R pasta operation and its *Pastamania* brand. The Division will continue to explore homestyle pasta as an emerging market niche.

New product development programs are supported by an internal group formed to develop new products related to Hershey Pasta Group's existing pasta operations. This research and development team began working on several promising new product ideas in 1987 which will be test marketed in 1988.

The Division took a major step to strengthen its competitive position in 1987 by discontinuing operations at its Denver, Colo., facility. This plant was the smallest in the Hershey Pasta Group system, could not easily be expanded to handle anticipated volume growth, and was in need of significant capital investment to upgrade outdated equipment. Economies of scale at Hershey Pasta

Greater production and distribution efficiencies are achieved as Hershey Pasta Group increases the number of brands produced at each plant. While continuing to support strong regional brand preferences in various markets, this system offers significant cost savings in plant-to-plant shipping nationwide. Here, Jackie Trabue of the Louisville, Ky., plant packs **American Beauty** ***brand pasta for shipment to nearby regions.***

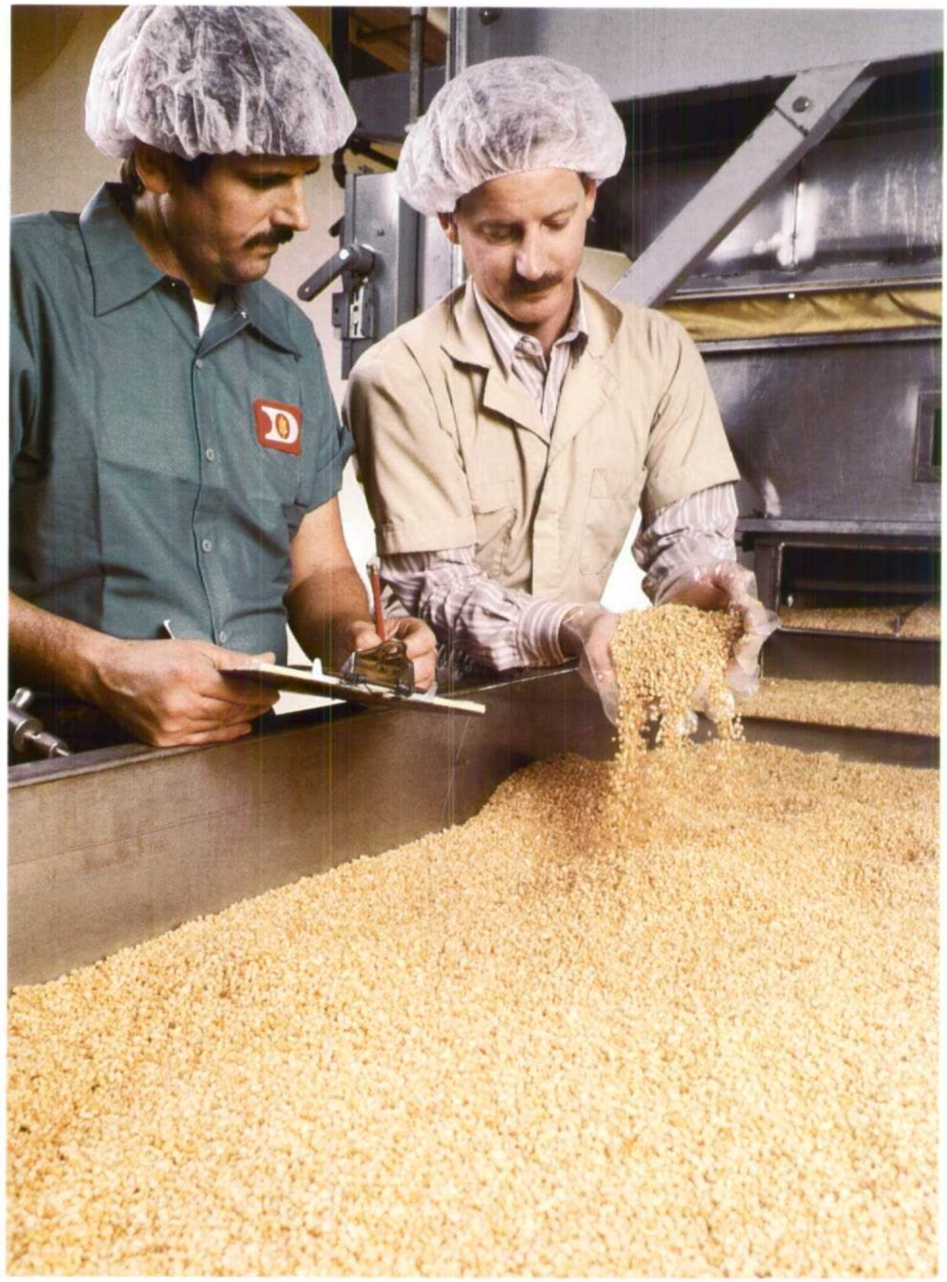
Group plants in Omaha, Neb., and Kansas City, Kan., indicated a more effective use of future capital dollars at these locations.

Significant capital investments in 1987 included a warehouse expansion, installation of a short cut dryer, and the addition of a specialty pasta line at the Lebanon, Pa., plant. Capacity upgrades also were initiated for several plants, particularly the Fresno, Calif., location, with completion of most of these installations scheduled for 1988.

New packaging equipment installed at several plants in 1987 permits a consistently high-quality product to be manufactured throughout the Division with significant productivity savings. The Division's foodservice business unit continued to grow at a healthy rate, and additional savings are being generated through the installation of automated packaging equipment for this operation at most Hershey Pasta Group plants.

The 1987 durum wheat harvest completed in September was disappointing from a quality perspective. Hershey Pasta Group continues to demand top quality raw materials from suppliers to ensure that they meet its high standards.

Hershey Pasta Group's investment in such areas as flavor-enhanced crisp rice technology has opened the door to new growth opportunities. Crisp rice produced at the Louisville, Ky., plant not only is sold to Hershey Chocolate U.S.A. for use in a variety of bar products, but also is used in Hershey Foods' research and development efforts and is marketed to other companies. Here, employees Arlie Brewer (left) and Philip Helm monitor the manufacturing process at the Division's Louisville plant.



Italian pasta exports subsidized by the European Economic Community (EEC) continued to be a major issue in 1987. With the removal of a countervailing U.S. tariff in 1986, European pasta manufacturers enjoyed a substantial cost advantage over domestic manufacturers as a result of the continued EEC subsidy. Consequently, EEC pasta exports to the United States grew by over 25 percent in 1987.

Negotiations between the Office of the U.S. Trade Representative and the EEC resulted in a tentative settlement in October 1987, at which time the EEC agreed to eliminate the subsidy on half of its exports and reduce the subsidy on the remaining half by 27.5 percent. Shipments by Italian manufacturers in anticipation of the agreement will make it difficult to see any impact on imported pasta retail prices until well into 1988.

Meeting the challenge of a difficult restaurant environment

FRIENDLY ICE CREAM CORPORATION
Friendly Ice Cream Corporation achieved record sales in 1987. The sales increase was moderate, however, as the benefits of selling price increases, new store openings, and the acquisition of two small restaurant chains during the second half of 1986 were offset by reduced customer traffic per restaurant. Lower customer traffic was recorded throughout the restaurant industry due to slower growth in consumer disposable income and intensified competition, especially from non-traditional sources such as supermarkets and convenience stores. In addition, Friendly's customer service levels deteriorated somewhat due to a labor shortage in key market areas. Operating income for 1987 was below that of 1986, reflecting a reduction in margins due to lower customer counts and higher restaurant operating expenses.

The improvement in Friendly's sales over 1986 primarily is attributable to the construction and acquisition of additional restaurants, the introduction of new or enhanced product offerings, and menu price increases. Established unit volume sales declined from 1986 levels.

Friendly's sales growth resulted in market share stability in its operating regions despite aggressive activity by major competitors.

Friendly's overall cost of food and supplies remained relatively stable in 1987. However, the already severe shortage of restaurant workers in most of Friendly's operating areas intensified during the year. Employee turnover remained high and the operating margin was adversely affected as the additional costs to attract, train and retain a competent restaurant labor force continued to increase dramatically.

Friendly continues to recognize the need to deliver consistently superior customer service, especially important within the current industry environment of soft sales and higher labor costs. Here, Jeannine Feledick serves several popular* Friendly *sundaes and other ice cream treats at one of Friendly's more than 840 restaurants.

A strong economy, resulting in high levels of employment in many of Friendly's markets, is a primary contributor to the shortage of restaurant workers. The declining number of teenagers has made the problem even more severe. This issue was addressed in 1987 by raising pay scales and expanding employee benefits. Additionally, recruiting efforts, particularly among working mothers, senior citizens and other non-teenage populations received increased emphasis.

Friendly continued intensive training efforts through programs such as "Video Based Crew Training," which teaches new employees basic job skills more quickly and effectively. The video format focuses on critical topics such as customer satisfaction, provides a standard message to all employees, and allows the trainer to more directly assist in customer service. This program, operating in two-thirds of the chain, will be extended chainwide during 1988.

During the year, 30 *Friendly* restaurants opened at new locations, of which 21 were freestanding, seven were located in malls, and two were in institutional locations (a hospital and a

science museum). Seventeen restaurants were closed during the year.

During 1987, Friendly completed the conversion into *Friendly* restaurants of the Idlenot Farm Restaurants, Inc. chain of Springfield, Vt., which was acquired in July 1986. Friendly also began conversion of Litchfield Farm Shops, Inc. of Waterbury, Conn., acquired in December 1986, which operated 23 ice cream and sandwich restaurants in the state of Connecticut. Friendly converted nine of the Litchfield Farm Shops units to the Friendly concept during 1987, closed four units and expects to convert most of the remaining units in 1988.

New market development activities in Orlando, Fla., progressed with 18 restaurants operating at the end of 1987 and seven additional units planned to open during 1988. Sales results have met expectations, and consumer research confirmed that Florida residents are very receptive to the Friendly concept. Television advertising was introduced to this market in mid-year.

A new line of prepackaged, single-serve sundae cups featuring the *Friendly* brand was introduced during 1987 to complement the *Hershey*-branded sundae cups introduced in 1986. Consumer response to both lines of sundae cups has exceeded expectations. In addition, Friendly enhanced its sandwich offerings by introducing a new line of roast beef sandwiches and an all-natural chicken sandwich.

A new line of complete dinners and a line of pasta entrees, both of which will enhance the dinner offerings, are in various stages of development. The dinner program undertaken in late 1987 has been successfully tested, and these products will be offered chainwide in 1988.

Additionally, Friendly is testing the sale of a number of its specialty prepackaged ice cream products through supermarkets in the Albany, N.Y., area. This retail sales test is being supported by television advertising and coupon promotions.

During 1987, Friendly tested various promotions, including a senior citizen discount, with excellent results. The senior citizen program, called the "Silver Service Club," will be expanded

Innovative programs such as "Video Based Crew Training" help Friendly train, motivate and retain restaurant employees. Enhancing customer service, improving employee morale, reducing training costs and communicating more effectively are just a few of the objectives covered by this program. Here, Franny Reynolds of Human Resources prepares a videotape on customer service.

Friendly's continuing menu development efforts keep it in touch with today's consumer preferences and help ensure success in the competitive restaurant business. Here, Roger Fickenscher of Friendly's Research and Development staff prepares several new "Pasta Pleasers," now being test marketed in a number of Friendly restaurants.

chainwide in 1988. Friendly also implemented an "Express Lunch" menu to meet the growing demand for speedy service during lunch time. Results indicate consumer acceptance of this strategy with no compromise of Friendly's quality standards.

Friendly continues to track consumer desires and preferences, aware that it must satisfy consumer needs without detracting from its strong image as a family restaurant with courteous, friendly service at reasonable prices. As a result, Friendly has developed the "Premier 90" program, designed to ensure that Friendly satisfies consumer preferences in the 1990s. The program, which includes modifications to building design, seating arrangements, restaurant equipment and interior and exterior appearance, will be tested in several existing restaurants during 1988.

Committed to sharing the benefits of success

Hershey Foods' commitment to quality extends beyond the products it manufactures and markets. It includes a dedication to improving the quality of life through significant contributions to the community — a commitment built upon Milton S. Hershey's belief that businesses, like individuals, have a moral and ethical responsibility to society.

One example of this commitment is *Friendly* restaurants' "Cones for Kids" promotion. Friendly has been a national corporate sponsor of the National Easter Seals Society since 1981. Since that time, it has raised nearly $4 million on behalf of children and adults with disabilities, $1.2 million of which was raised in 1987 alone. These efforts have made Friendly the most successful single-project contributor in the history of the National Easter Seals Society.

"Cones for Kids" dollars are raised through offering coupon books, valued at $5.50 in 1988, to customers donating a dollar to Easter Seals at any of Friendly's more than 840 restaurants. Customers also are offered two free *Friendly* ice cream cones for their contribution. Money raised through the program is used by the local Easter Seals Society organizations for a variety of programs, including physical and speech therapy, summer camps and loans of special equipment to the disabled.

Another significant program is Hershey Chocolate U.S.A.'s sponsorship of the annual Children's Miracle Network Telethon. In 1987, the Division donated $250,000 — proceeds of a special coupon promotion — to this national fund raising effort on behalf of children's hospitals.

Hershey's commitment to the well-being of young people also is realized through the *Hershey's* National Track & Field Youth Program. This program, now celebrating its 11th anniversary, introduced 275,000 children ages 9 through 14 and from all 50 states to basic track and field activities during 1987.

Through programs such as those described above and through a wide variety of other community relations and corporate contributions efforts, Hershey is committed to sharing the benefits of its success with the communities in which it does business and society in general.

Friendly *restaurants raised nearly $1.2 million for the National Easter Seals Society in 1987 through its annual "Cones for Kids" program. While raising funds to help people with disabilities, the program also exemplifies Friendly's concern and commitment to the communities in which it operates.*

INVESTOR INFORMATION

HERSHEY FOODS STOCKHOLDERS
As of December 31, 1987, the Corporation had outstanding 74,889,450 shares of Common Stock and 15,296,886 shares of Class B Common Stock owned by 29,151 registered stockholders of record.

STOCK MARKET DATA
Hershey Foods Corporation's Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." Class B Common Stock is not listed for trading. The stock tables of most financial publications list the Corporation as "Hrshey." Options on Common Stock are traded on the American Stock Exchange.

	Common Stock Approximate Share Volume	
Year	**Annual Composite Trading**	**Average Daily**
1987	48,145,000	190,000
1986	22,838,000	90,000
1985	8,566,000	34,000

	Common Stock Price			Dividend	
1987	**High**	**Low**	**Close**	**Common**	**Class B**
(calendar quarter)					
1st	$29⅜	$24½	$27⅝	$.135	$.1225
2nd	29½	23	28	.135	.1225
3rd	37¾	26⅜	34⅛	.155	.1400
4th	37⅝	20¾	24½	.155	.1400

BOOK VALUE & YEAR-END STOCK PRICE

FORM 10-K
Form 10-K, filed annually in March with the Securities and Exchange Commission, is available without charge from the Office of the Secretary, Hershey Foods Corporation, P.O. Box 814, Hershey, Pa. 17033.

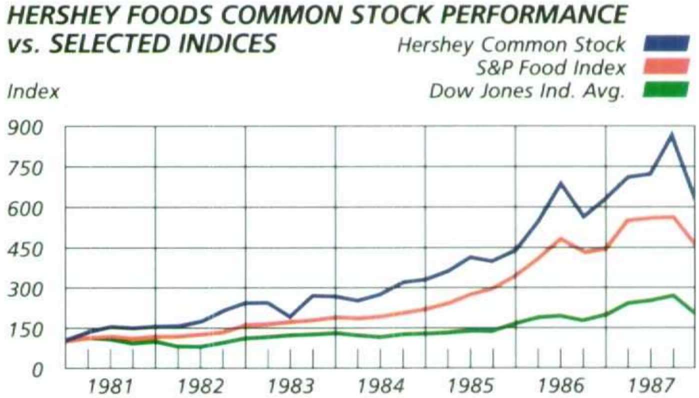
INVESTOR RELATIONS
Hershey Foods maintains an active investor relations program to keep stockholders and the investment community informed of the Corporation's progress.

Comments or requests for information should be directed to the Investor Relations Department at the address listed on page 41.

ANNUAL MEETING
The Annual Meeting of Stockholders will be held at 2:00 p.m. on Monday, April 25, 1988, at the Hershey Theatre, East Caracas Avenue (near Cocoa Avenue) in Hershey, Pa.

A formal notice of this meeting, together with a proxy statement, is being mailed to stockholders on or about March 8, 1988.

HERSHEY FOODS COMMON STOCK PERFORMANCE vs. SELECTED INDICES



DIVIDEND POLICY
Dividends on both the Corporation's Common Stock and Class B Common Stock are declared by the Board of Directors, and are normally paid in the months of March, June, September and December.

The year 1987 marked the 13th consecutive annual increase in the dividend rate; the increase is consistent with the Corporation's current target of paying approximately one-third of earnings in dividends to stockholders. The dividend on the Common Stock to be paid in March 1988 will be the 233rd consecutive regular dividend paid by the Corporation.

AUTOMATIC DIVIDEND REINVESTMENT SERVICE
Stockholders may build their investment in Hershey Foods by enrolling in the Corporation's Automatic Dividend Reinvestment Service.

Brokerage commissions and agent fees associated with the service are paid by Hershey Foods. For information, write to the Corporation's Office of the Secretary in Hershey, or to the Dividend Reinvestment Department of Manufacturers Hanover Trust Company, P.O. Box 24850, Church Street Station, New York, N.Y. 10242-4850.

STOCK GROWTH
An investment in 100 shares of Hershey Foods' Common Stock on December 31, 1981 for $3,600 would have grown to 600 shares valued at $14,700 at December 31, 1987. If dividends were reinvested quarterly and taxes were paid out of pocket, shares would have increased to 725.43 for a value of $17,773 at December 31, 1987. While there are many factors which determine future growth rates, this represents an average 30 percent compounded annual rate of return.

FINANCIAL REVIEW

CONTENTS

CONSOLIDATED RESULTS OF OPERATIONS

The Corporation realized strong sales and earnings growth in both 1987 and 1986. Net sales during this two-year period increased at a compounded rate of 10%, while net income grew at a compounded rate of 15%. The sales gain reflects volume growth from business acquisitions, existing brands, new product introductions and new restaurant openings, and, to a lesser extent, price increases. Net income increased at a higher rate than sales due to increased gross profit margins and a lower effective tax rate in 1987, partly offset by higher levels of promotional and advertising expenditures and higher net interest expense. Net income for 1985 was negatively impacted by a loss from discontinued operations.

The Tax Reform Act of 1986 favorably impacted earnings over the two-year period, as the 1987 decrease in the Federal statutory corporate income tax rate to 40% more than offset the unfavorable effect in 1986 of the elimination of investment tax credits. Additionally, net income per share, particularly in 1987, was favorably impacted by the Corporation's purchase and retirement of 3,825,000 shares of its Common Stock on November 14, 1986.

In the following discussion, all shares and per share information have been restated for the three-for-one stock split effective September 15, 1986. The weighted average number of outstanding shares of Common Stock and Class B Common Stock used to compute net income per share was 90,186,336 in 1987, 93,508,322 in 1986 and 94,011,336 in 1985. The decrease in weighted average shares outstanding in 1987 and 1986 reflects the Corporation's purchase and retirement of its Common Stock in 1986.

Net Sales

In 1987, consolidated net sales of $2,433.8 million increased $264.2 million or 12% over the prior year. The majority of the net sales increase for the Consumer Foods segment was related to acquired businesses and unit volume growth. For the Restaurant Operations segment, the net sales increase was largely the result of higher selling prices.

Consolidated net sales in 1986 of $2,169.6 million rose $173.5 million or 9% over 1985, mostly as a result of higher unit volumes. The Consumer Foods segment net sales increase related to both higher unit volume and increased selling prices, while volume growth accounted for most of the net sales increase for the Restaurant Operations segment.

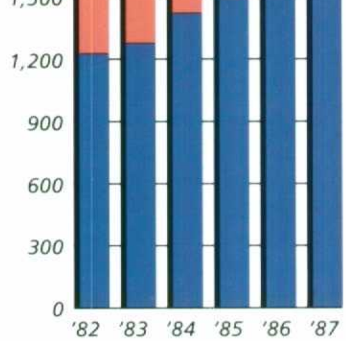
Net Income

Net income increased by $15.4 million or 12% in 1987 and net income per share increased by 15% to $1.64 from $1.42 in 1986. Gross profit margin was 33.8% in 1987 and 33.0% in 1986, reflecting stable-to-lower costs of most major raw materials in 1987. Selling, general and administrative expenses increased 18% in 1987, reflecting higher promotional and advertising spending to increase sales and enhance market share of existing and new products. Net interest expense increased to $24.7 million in 1987 from $9.8 million in 1986, due primarily to interest expense on debt issued in 1987 and 1986 relating to acquisitions and the purchase of Common Stock. The effective income tax rate decreased from 49.1% in 1986 to 45.0% in 1987, due to the lower Federal statutory corporate income tax rate established by the Tax Reform Act of 1986.

Net income rose 18% to $132.8 million in 1986 and net income per share increased 19% to $1.42 from $1.19 in 1985. Gross profit margin was 33.0% in 1986 and 32.1% in 1985, as selling price increases, stable-to-lower costs of most raw materials in 1986 and the adoption of FAS No. 87, as discussed below, more than offset the effects of increased weights of domestic standard chocolate and confectionery items. Selling, general and administrative expenses increased 13%, reflecting increased expenditures to support existing products in highly competitive markets and new product introductions. Net interest expense decreased to $9.8 million in 1986 from $11.9 million in 1985 reflecting lower foreign borrowing costs. Net income for 1985 reflected a loss from discontinued operations related to the sale of the stock of Cory Food Services, Inc. and Cory Canada Inc., which reduced earnings in 1985 by $8.4 million or $.09 per share,

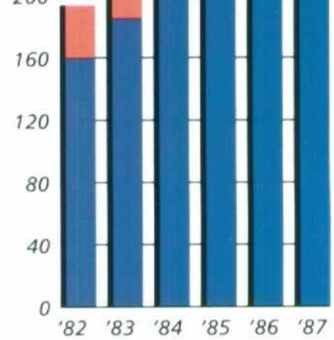
NET SALES BY INDUSTRY SEGMENT

(dollars in millions)



OPERATING INCOME BY INDUSTRY SEGMENT

(dollars in millions)



CONSUMER FOODS
RESTAURANT OPERATIONS

with no comparable loss recorded in 1986.

During 1986, the Corporation adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (FAS No. 87), which reduced pension expense for the year by approximately $7.3 million. The effect of this change in accounting for pensions was offset by an increase in the effective income tax rate from 48.2% in 1985 to 49.1% in 1986, primarily due to the Tax Reform Act of 1986 which retroactively eliminated investment tax credits for capital investments initiated and placed in service subsequent to December 31, 1985.

RESULTS OF OPERATIONS — INDUSTRY SEGMENTS

The Corporation operates in two industry segments: Consumer Foods and Restaurant Operations. Operations in the Consumer Foods segment involve manufacture and sale of a broad line of chocolate, confectionery and pasta products, as well as other food products. The principal product groups sold are chocolate and confectionery products in the form of bar goods, bagged items, baking ingredients, chocolate drink mixes and dessert toppings, cough drops, and pasta products in a variety of different shapes, sizes and packages. The Restaurant Operations segment is engaged in the operation of restaurants (over 840 at December 31, 1987) and the manufacture of certain products sold in those restaurants.

The table on page 22 presents net sales, income from continuing operations before interest and income taxes (operating income), identifiable assets and other information by industry segment. In 1987, the Corporation revised its definition of industry segments to reflect the evolutionary changes in its business. Amounts for 1986 and 1985 have been restated to conform with the current year's presentation.

Consumer Foods

The Consumer Foods segment achieved strong gains in net sales and operating income in 1987. Net sales increased by $228.3 million or 14%, primarily due to volume growth from business acquisitions, established brands and new products. Sales gains from business acquisitions consisted of those derived from the Canadian confectionery and snack nut businesses acquired from Nabisco Brands Ltd. on June 29, 1987 and the Luden's and Queen Anne product lines acquired as part of the purchase of The Dietrich Corporation on October 27, 1986.

These sales increases were partly offset by a sales decrease due to a change in accounting for Petybon, a Brazilian manufacturer of pasta, biscuits and margarine products that was wholly-owned by the Corporation prior to December 15, 1986. On that date, the Corporation entered into a joint venture agreement under which Petybon was combined with another Brazilian company. The Corporation retained a 45% equity interest in the combined joint venture. Accordingly, the Corporation discontinued the use of the consolidation method and adopted the equity method of accounting in December 1986. Therefore, 1987 net sales for the segment do not include those of the joint venture.

Operating income of $273.7 million in 1987 was higher than 1986 by $29.0 million or 12%. The operating margin (operating income as a percentage of net sales) was lower in 1987 than in 1986, as slightly lower raw material costs were more than offset by higher selling and marketing expenses. The increase in selling and marketing expenses included higher promotional and advertising spending in support of existing brands in highly competitive markets, new product introductions, and specific programs designed to increase sales and market share. Expenses incurred in 1987 in connection with the closing of a Denver pasta manufacturing facility also contributed to the decrease in the operating margin.

In 1986, the Consumer Foods segment's net sales grew $108.5 million or 7%, due to both higher unit volumes and increased selling prices, including sales of brands acquired from The Dietrich Corporation subsequent to the acquisition date. The Corporation increased the selling price of its domestic standard bar line an average of 14% in January 1986. In July 1986, the Corporation increased the weight on a major portion of its domestic standard bar line. Most of the weight increases were in a range of 10% to 14%.

Operating income in 1986 increased $20.9 million or 9% compared with 1985. The operating margin was higher in 1986 than in 1985, as stable-to-lower costs for most raw materials, increases in selling prices and the adoption of FAS No. 87 more than offset the higher cost of peanuts and almonds, increased standard bar line weights and higher selling and marketing expenses. Selling and marketing expenses increased primarily as a result of higher levels of trade promotions and advertising.

Restaurant Operations

Net sales for the Restaurant Operations segment increased $35.9 million or 7% in 1987 compared with 1986. The sales increase resulted from higher selling prices and sales volume from new restaurant openings and two small restaurant chains acquired during the second half of 1986. Established restaurants experienced a volume decrease, reflecting intensified competition. Operating income decreased $4.9 million or 10%, reflecting a reduction in gross margin due to reduced customer traffic per restaurant, higher hourly restaurant wage rates and increases in other operating costs. The operating margin decreased in 1987 primarily because of higher restaurant operating expenses, which more than offset

HERSHEY FOODS CORPORATION

INDUSTRY SEGMENT DATA

(in thousands of dollars)

For the years ended December 31,	1987	1986	1985
Net sales:(1 and 3)			
Consumer Foods	**$1,861,433**	$1,633,153	$1,524,666
Restaurant Operations	**572,360**	536,461	471,488
Total net sales	**$2,433,793**	$2,169,614	$1,996,154
Income from continuing operations before interest and income taxes:(3)			
Consumer Foods	**$ 273,679**	$ 244,645	$ 223,741
Restaurant Operations	**45,576**	50,435	43,309
General corporate expenses	**(25,142)**	(24,448)	(22,208)
Income from continuing operations before interest and income taxes	**294,113**	270,632	244,842
Interest expense, net	**(24,711)**	(9,799)	(11,929)
Income from continuing operations before income taxes	**$ 269,402**	$ 260,833	$ 232,913
Identifiable Assets at December 31:(2 and 3)			
Consumer Foods	**$1,205,738**	$ 931,368	$ 732,188
Restaurant Operations	**367,847**	358,779	310,955
Corporate	**71,655**	66,156	154,289
Total assets	**$1,645,240**	$1,356,303	$1,197,432
Depreciation:			
Consumer Foods	**$ 33,433**	$ 29,442	$ 26,932
Restaurant Operations	**29,036**	25,109	21,616
Corporate	**1,607**	1,436	1,096
Total depreciation	**$ 64,076**	$ 55,987	$ 49,644
Capital additions:			
Consumer Foods	**$ 66,936**	$ 70,389	$ 58,842
Restaurant Operations	**39,152**	61,496	53,330
Corporate	**1,575**	3,943	2,277
Total capital additions	**$ 107,663**	$ 135,828	$ 114,449

(1) No customer, government or other entity accounts for 10% or more of sales. Intersegment sales are not separately stated because such sales are not significant.
(2) Identifiable assets are those assets that are used in the Corporation's operations in each segment. Corporate assets are principally cash and short-term investments, and corporate property and equipment.
(3) Foreign operations were approximately 15% of total identifiable assets (excluding Corporate assets) in 1987. Net sales and operating income for the years 1985 through 1987 and identifiable assets for 1985 and 1986 were less than 10% of the total in each of the respective categories.

the favorable impact of selling price increases. In 1987, Friendly opened 30 restaurants.

In 1986, the Restaurant Operations segment's net sales grew by $65.0 million or 14%. Sales growth was attributable to volume gains and selling price increases. New restaurant openings, small restaurant chain acquisitions since the third quarter of 1985 and expanded menu offerings contributed to volume growth in 1986. Operating income increased $7.1 million or 16% in 1986 compared with 1985. Operating margins increased, primarily as a result of the adoption of FAS No. 87, since increased sales volume, higher selling prices and stable food costs were more than offset by higher restaurant labor costs and marketing expenses. In 1986, Friendly opened 49 restaurants at new locations and added 35 restaurants as the result of two restaurant chain acquisitions during the year.

General Corporate Expenses

General corporate expenses increased 3% in 1987 compared with 1986, as a result of general cost increases and higher depreciation expense. General corporate expense amounts were 10% higher in 1986 compared with 1985, reflecting gains in 1985 on the repurchase of debentures with no comparable income in 1986.

FINANCIAL CONDITION

Liquidity

During 1987, the Corporation's cash and short-term investments decreased by $12.7 million. Funds provided from continuing operations ($180.8 million, net of acquired working capital) were used to finance capital expenditures ($107.7 million) and pay cash dividends ($51.5 million). The Corporation used funds primarily provided from short-term borrowings and long-term debt to finance the acquisition of Nabisco Brands Ltd.'s Canadian confectionery and snack nut businesses (Canadian Confectionery Operation).

The Corporation initially financed the June 29, 1987 acquisition of the Canadian Confectionery Operation through the issuance of $160.0 million of privately placed commercial paper notes. On June 30, 1987, the Corporation entered into a Distribution Agreement relating to the issuance and sale of up to $100 million aggregate principal amount of Medium-Term Notes (the Notes) under the Corporation's Registration Statement (No. 33-5003) filed pursuant to Rule 415 of the Securities Act of 1933, as amended. As of December 31, 1987, $70.0 million of these Notes had been issued. In February 1988, the Corporation issued the remaining $30.0 million of the Notes. The Corporation has used the proceeds from the issuance of the Notes to partially repay the commercial paper notes.

During 1986, funds provided from continuing operations were sufficient to finance capital additions and dividend payments. Funds provided from the issuance of long-term debt were used principally to repay short-term debt incurred to finance the acquisition of the outstanding shares of capital stock of The Dietrich Corporation and the purchase of the Corporation's Common Stock from its majority stockholder, Hershey Trust Company, as Trustee for Milton Hershey School. During 1985, internally generated funds were sufficient to finance the Corporation's investment activities.

Investment activities over the past three years, essential for the Corporation's continued growth, included capital expenditures for new manufacturing equipment, expansion of existing facilities and construction of restaurants and distribution facilities. The Corporation also used funds for acquisitions in both business segments, primarily the Canadian Confectionery Operation in 1987 and The Dietrich Corporation in 1986.

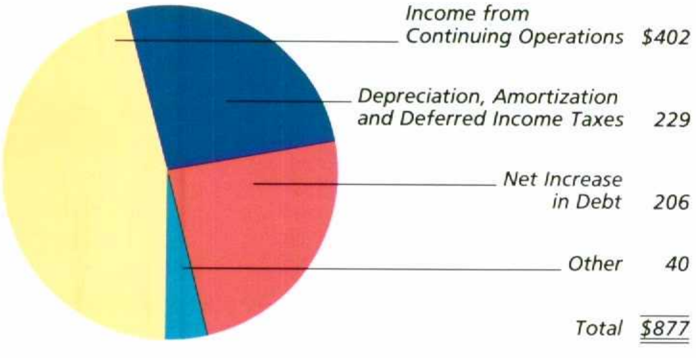
The Corporation's sales, income from continuing operations and related working capital requirements are affected by seasonal sales patterns. In the Consumer Foods segment, chocolate and confectionery seasonal and holiday related sales are typically highest during the third and fourth quarters of the year, representing the principal seasonal effect on the Corporation, while pasta sales are slightly higher during the cooler weather periods. Restaurant Operations segment sales are highest in the second and third quarter warm weather seasons.

Generally, the Corporation's domestic seasonal working capital needs have exceeded funds generated from normal operations, and interim financing has been required. These needs have been met by issuing commercial paper and/or through short-term commercial bank borrowings. Typically, the Corporation's seasonal needs for working capital peak during the summer months and domestic short-term borrowings generally have been repaid in the fall. In 1987 and 1986, domestic short-term borrowings were required to fund seasonal working capital requirements. Additionally, interim short-term debt was incurred during both years to partially finance business acquisitions and the purchase of the Corporation's Common Stock in 1986. No seasonal borrowings were required in 1985.

At December 31, 1987, the Corporation had $6.0 million

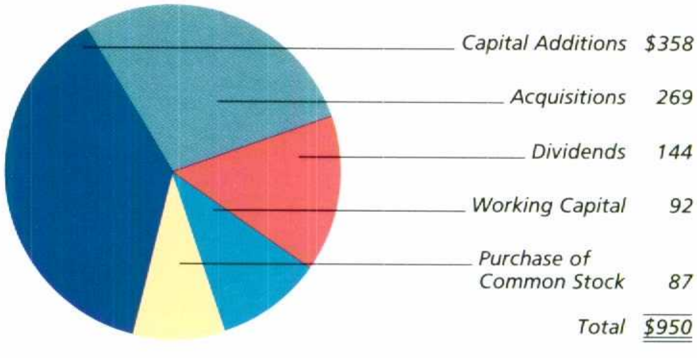
THREE-YEAR PRINCIPAL SOURCES OF FUNDS

(dollars in millions)



THREE-YEAR PRINCIPAL USES OF FUNDS

(dollars in millions)



of current portion of long-term debt, $25.4 million of short-term debt and $15.0 million of cash and short-term investments. Bank lines of credit which may be borrowed directly or used to support the issuance of commercial paper were $150 million.

At December 31, 1987, the Corporation's principal capital commitments included the installation of manufacturing equipment, facility enhancements and the construction of *Friendly* restaurants.

On November 14, 1986, the Corporation's majority stockholder, Hershey Trust Company, as Trustee for Milton Hershey School (Hershey Trust), sold 5,175,000 shares of Hershey Foods Corporation Common Stock, $1.00 par value, in an underwritten secondary public offering. On the same date, the Corporation purchased 3,825,000 shares of its Common Stock from Hershey Trust at $22.72 per share, a price equal to the proceeds per share to Hershey Trust in the secondary public offering. The acquired shares were retired and became authorized and unissued shares of Common Stock.

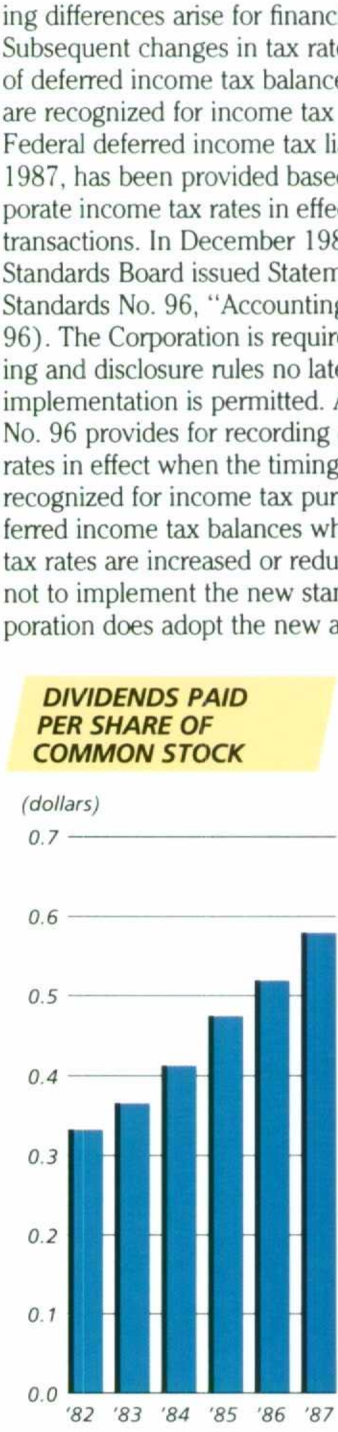
Hershey Trust sold the shares in order to diversify its investment portfolio. Additionally, Hershey Trust has indicated that, subject to its fiduciary obligations, it has no intention of selling any additional shares of the Common Stock and intends to maintain voting control of the Corporation.

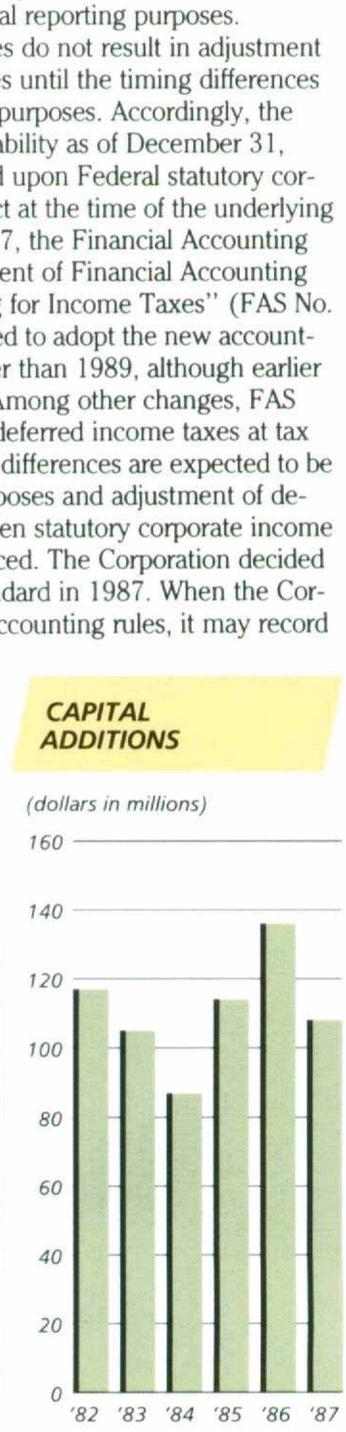
The ratio of current assets to current liabilities was 1.6:1 at December 31, 1987, 1.8:1 in 1986 and 2.1:1 in 1985. The Corporation's capitalization ratio (total short-term and long-term debt as a percentage of stockholders' equity, short-term and long-term debt) was 29% at December 31, 1987, 23% in 1986 and 14% in 1985. The increase in 1987 over 1986 primarily reflects the issuance of Medium-Term Notes and higher short-term debt. The increase in 1986 over 1985 resulted from the November 25, 1986 issuance of $50.0 million 7% Notes and $50.0 million 9⅛% Sinking Fund Debentures, together with the purchase and retirement of the Corporation's Common Stock.

Tax Reform Act of 1986

The Tax Reform Act of 1986 (Act) reduced the Federal statutory corporate income tax rate from 46% in 1986 to 40% in 1987 and to 34% in 1988 and subsequent years. Additionally, the Act eliminated investment tax credits for capital investments initiated and placed in service subsequent to December 31, 1985. As a result, the Corporation's effective income tax rate increased from 48.2% in 1985 to 49.1% in 1986 and then decreased to 45% in 1987. The reduction in the effective income tax rates did not necessarily have a corresponding effect on net income for a variety of reasons, including expenditures on programs designed to increase sales and enhance market share.

The reductions in income tax rates affect not only taxes which are currently payable but also the amount of deferred income taxes provided through December 31, 1987, which will be payable in future years. Under existing Generally Accepted Accounting Principles, the provision for deferred income taxes is based on income tax rates in effect when timing differences arise for financial reporting purposes. Subsequent changes in tax rates do not result in adjustment of deferred income tax balances until the timing differences are recognized for income tax purposes. Accordingly, the Federal deferred income tax liability as of December 31, 1987, has been provided based upon Federal statutory corporate income tax rates in effect at the time of the underlying transactions. In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (FAS No. 96). The Corporation is required to adopt the new accounting and disclosure rules no later than 1989, although earlier implementation is permitted. Among other changes, FAS No. 96 provides for recording deferred income taxes at tax rates in effect when the timing differences are expected to be recognized for income tax purposes and adjustment of deferred income tax balances when statutory corporate income tax rates are increased or reduced. The Corporation decided not to implement the new standard in 1987. When the Corporation does adopt the new accounting rules, it may record





the entire catch-up effect in that year or it may retroactively restate prior financial statements. The Corporation has not decided which option it will utilize or in which year it will implement the change. However, management believes that, based on the current Federal statutory corporate income tax rate, when the change in accounting is adopted using either method the impact on net income will be favorable.

Effects of Inflation

The Corporation monitors the effects of inflation and takes various steps, including selling price and product weight changes, to minimize its impact on the Corporation's business. The use of LIFO inventory accounting for most inventories matches current costs with current revenues and, in periods of inflation, reduces income taxes and improves cash flow. The capital expenditures program, through investment in modern plant and equipment, provides for future sales growth and manufacturing efficiencies. This approach to management of inflation, the generally stable costs of major commodities and other manufacturing materials, and the modest rate of inflation on other costs as measured by the Average Consumer Price Index, are the principal factors which have resulted in inflation having a minimal effect on comparative reported results of operations and financial condition for the most recent three years.

MARKET PRICES AND DIVIDENDS

Cash dividends paid on the Corporation's Common Stock and Class B Common Stock (Class B Stock) were $51.5 million in 1987 and $48.1 million in 1986. The annual dividend rate on the Common Stock is $.62 per share, an increase of 15% over the 1986 rate of $.54 per share. The 1987 dividend represents the 13th consecutive year of Common Stock dividend increases.

On February 10, 1988, the Corporation declared a regular quarterly dividend of $.155 per share of the Common Stock payable on March 15, 1988, to stockholders of record March 1, 1988. It is the Corporation's 233rd consecutive regular Common Stock dividend. A regular quarterly dividend of $.14 per share of the Class B Stock was also declared. Cash dividends paid on shares of the Common Stock are required to be 10% higher than those paid on the Class B Stock.

Hershey Foods Corporation Common Stock is listed and traded principally on the New York Stock Exchange under the symbol HSY. Approximately 48.1 million shares of the Corporation's Common Stock were traded during 1987. The closing price of the Common Stock on the New York Stock Exchange on December 31, 1987, was $24½. The Class B Stock is not publicly traded. There were 29,151 stockholders of record of the Common Stock and the Class B Stock at December 31, 1987.

The New York Stock Exchange (NYSE) presently has a rule against listing the common stock of companies that have more than one class of common stock with unequal voting power. In September 1986, the NYSE's Board of Directors voted to change this rule to allow listed companies to have different classes of common stock with unequal voting power. As required by Federal securities laws, the NYSE filed its proposed rule change with the Securities and Exchange Commission (SEC) for its approval.

In June 1987, the SEC proposed the adoption of a rule providing that no equity security of an issuer could be listed on a securities exchange or national market system if the issuer, after May 15, 1987, issues any class of stock or takes other corporate action that has the effect of "nullifying, restricting or disparately reducing the per share voting rights" of any class of common stock outstanding. As of December 31, 1987, no decision had been reached on the proposed rule.

The Corporation believes that, under the SEC's proposed interpretation of the rule, the Corporation's 1984 dual class recapitalization would not be subject to the rule since it occurred prior to May 15, 1987. The Corporation is unable to predict the outcome of SEC proceedings on the proposed rule or possible future NYSE actions in this area, but continues to encourage a solution that will permit companies presently having dual class capitalizations to continue such equity structures.

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of the Common Stock for each quarter of the past two years. The amounts have been adjusted for the three-for-one stock split effective September 15, 1986.

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
1987				
1st Quarter	$.1350	$.1225	$29⅜	$24½
2nd Quarter	.1350	.1225	29½	23
3rd Quarter	.1550	.1400	37¾	26⅜
4th Quarter	.1550	.1400	37⅝	20¾
	$.5800	$.5250		
1986				
1st Quarter	$.1250	$.1133	$21⅜	$15½
2nd Quarter	.1250	.1133	26⅞	19⅛
3rd Quarter	.1350	.1225	30	21⅜
4th Quarter	.1350	.1225	26½	21
	$.5200	$.4716		

* NYSE-Composite Quotations for Common Stock by calendar quarter.

OTHER FINANCIAL INFORMATION

CAPITAL ADDITIONS

The Corporation regularly invests in capital additions, providing for growth, productivity and capacity sustaining programs. Capital additions, including capitalized interest and property subject to capitalized leases, in 1987 were $107.7 million (excluding $30.5 million related to the acquired Canadian Confectionery Operation) compared with $135.8 million in 1986 and $114.4 million in 1985.

The Consumer Foods segment additions accounted for $66.9 million or 62% of total spending for 1987 compared with $70.4 million or 52% in 1986. In 1987 and 1986, additions consisted principally of installations of production equipment for new and existing products, expansion of manufacturing and warehouse facilities, and construction of a new distribution center.

The Restaurant Operations segment accounted for $39.2 million or 36% of the total spending for 1987 compared with $61.5 million or 45% in 1986. Approximately 51% of the spending during 1987 was for restaurants opened at 30 new locations and new restaurant locations scheduled to open subsequent to 1987. Other additions included the renovation of existing restaurants and other improvements. In 1986, 49 restaurants at new locations were opened.

Corporate additions were $1.6 million or 2% of total spending in 1987 compared with $3.9 million or 3% in 1986. Additions during the periods included renovation of Corporate facilities and the 1986 addition of a Corporate aircraft.

Depreciation expense and amortization of leasehold improvements and capitalized leases for 1987, 1986 and 1985 amounted to $64.1 million, $56.0 million and $49.6 million, respectively.

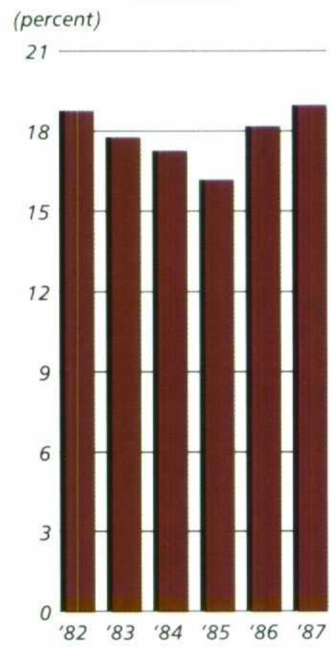
RETURN ON STOCKHOLDERS' EQUITY

The Corporation has increased consolidated net sales, net income and assets in each of the most recent six years. Its return on average stockholders' equity has ranged from 16.2% in 1985 (17.4% from continuing operations) to 19.0% in 1987.

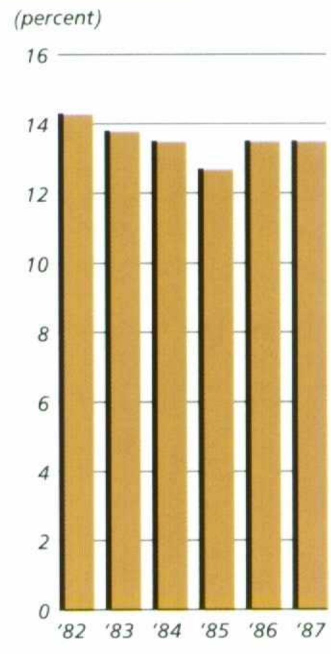
RETURN ON INVESTED CAPITAL

The Corporation's after-tax return on average invested capital over the most recent six-year period has ranged from 12.7% in 1985 (13.6% from continuing operations) to 14.3% in 1982; it was 13.5% in 1987. Average invested capital consists of the average of beginning and end-of-year balances in long-term debt, deferred income taxes and stockholders' equity. Earnings on invested capital is the sum of net income and the after-tax effect of interest on long-term debt and capitalized leases.

RETURN ON AVERAGE STOCKHOLDERS' EQUITY



AFTER-TAX RETURN ON AVERAGE INVESTED CAPITAL



HERSHEY FOODS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(In thousands of dollars except per share amounts)

For the years ended December 31,	1987	1986	1985
Net Sales	**$2,433,793**	$2,169,614	$1,996,154
Costs and Expenses:			
Cost of sales	**1,612,051**	1,453,440	1,355,789
Selling, general and administrative	**527,629**	445,542	395,523
Total costs and expenses	**2,139,680**	1,898,982	1,751,312
Income from Continuing Operations before Interest and Income Taxes	**294,113**	270,632	244,842
Interest expense, net (Note 1)	**24,711**	9,799	11,929
Income from Continuing Operations before Income Taxes	**269,402**	260,833	232,913
Provision for income taxes (Note 7)	**121,231**	128,069	112,264
Income from Continuing Operations	**148,171**	132,764	120,649
(Loss) from Discontinued Operations (Note 2)	**—**	—	(8,422)
Net Income	**$ 148,171**	$ 132,764	$ 112,227
Income (Loss) per Share (Note 3)			
Continuing Operations	**$ 1.64**	$ 1.42	$ 1.28
Discontinued Operations (Note 2)	**—**	—	(.09)
Net Income	**$ 1.64**	$ 1.42	$ 1.19

Cash Dividends Paid per Share of Common Stock (Note 3)	**$ .5800**	$ .5200	$ .4751
Cash Dividends Paid per Share of Class B Common Stock (Note 3)	**.5250**	.4716	.4283
Income from Continuing Operations before Interest and Income Taxes as a Percentage of Net Sales	**12.1%**	12.5%	12.3%
Income from Continuing Operations as a Percentage of Net Sales	**6.1%**	6.1%	6.0%

The notes to consolidated financial statements are an integral part of these statements.

HERSHEY FOODS CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars)

December 31,	1987	1986
ASSETS		
Current Assets:		
Cash and short-term investments (Note 1)	**$ 14,954**	$ 27,606
Accounts receivable—trade (less allowances for doubtful accounts of $5,072 and $4,491)	**121,531**	77,382
Inventories (Note 1)	**285,418**	237,509
Prepaid expenses and other (Note 8)	**62,964**	50,923
Total current assets	**484,867**	393,420
Property, Plant and Equipment, at cost: (Note 1)		
Land	**68,043**	64,576
Buildings	**279,012**	251,075
Machinery and equipment	**870,925**	780,967
Capitalized leases	**42,354**	34,498
	1,260,334	1,131,116
Less—accumulated depreciation and amortization	**397,311**	337,792
	863,023	793,324
Intangibles Resulting from Business Acquisitions (Note 1)	**261,559**	149,025
Investments and Other Assets (Notes 1 and 8)	**35,791**	20,534
	$1,645,240	$1,356,303

December 31,	1987	1986
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable (Note 4)	$ 130,415	$ 102,959
Accrued liabilities		
Payroll and other compensation costs	47,459	40,474
Advertising and promotional expenses	31,144	18,906
Other	42,888	34,414
	121,491	93,794
Accrued income taxes	16,414	16,990
Short-term debt and current portion of long-term debt (Notes 4 and 5)	31,449	8,400
Total current liabilities	299,769	222,143
Long-Term Debt (Notes 5 and 6)	306,095	210,792
Other Long-Term Liabilities	43,135	36,497
Deferred Income Taxes (Note 7)	163,831	158,930
Stockholders' Equity: (Note 3)		
Common Stock, $1 par value, outstanding shares: 74,889,450 in 1987; 74,886,450 in 1986	74,889	74,886
Class B Common Stock, $1 par value, outstanding shares: 15,296,886 in 1987; 15,299,886 in 1986	15,297	15,300
Additional paid-in capital	51,285	51,681
Cumulative foreign currency translation adjustments	2,038	(6,123)
Retained earnings	688,901	592,197
Total stockholders' equity	832,410	727,941
	$1,645,240	$1,356,303

The notes to consolidated financial statements are an integral part of these balance sheets.

HERSHEY FOODS CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(in thousands of dollars)

For the years ended December 31,	**1987**	1986	1985
Cash Provided from (Used by) Continuing Operations			
Income from continuing operations	**$ 148,171**	$ 132,764	$ 120,649
Depreciation and amortization	**70,630**	58,975	52,351
Deferred income taxes	**(9,872)**	26,488	30,268
Working capital provided from continuing operations	**208,929**	218,227	203,268
Changes in working capital (excluding cash and short-term investments and debt):			
Inventories	**(47,909)**	(44,831)	(6,725)
Accounts receivable	**(44,149)**	(765)	4,360
Accounts payable	**27,456**	15,160	(8,579)
Other	**29,853**	(6,064)	(9,602)
Other long-term liabilities	**6,638**	5,281	6,136
Cash provided from continuing operations	**180,818**	187,008	188,858
Cash Provided from Discontinued Operations	**—**	—	12,062
Cash Dividends Paid	**(51,467)**	(48,146)	(43,942)
Cash Provided from (Used for) Investment Transactions			
Capital additions	**(107,663)**	(135,828)	(114,449)
Business acquisitions, net of working capital acquired	**(146,641)**	(115,498)	(6,479)
Other	**(6,051)**	16,938	(1,117)
Cash (used for) investment transactions	**(260,355)**	(234,388)	(122,045)
Cash Provided from (Used for) Financing Transactions			
Net increase (decrease) in long-term debt	**95,303**	100,623	(15,067)
Net increase (decrease) in short-term debt	**23,049**	(1,223)	2,853
Purchase of the Corporation's Common Stock	**—**	(86,904)	—
Cash provided from (used for) financing transactions	**118,352**	12,496	(12,214)
Increase (Decrease) in Cash and Short-Term Investments	**(12,652)**	(83,030)	22,719
Cash and Short-Term Investments at January 1	**27,606**	110,636	87,917
Cash and Short-Term Investments at December 31	**$ 14,954**	$ 27,606	$ 110,636

The notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands of dollars)

	Common Stock	Class B Common Stock	Additional Paid-In Capital	Cumulative Foreign Currency Translation Adjustments	Retained Earnings	Total Stockholders' Equity
Balance at January 1, 1985	$26,235	$ 5,102	$54,006	$(7,265)	$582,850	$660,928
Net income					112,227	112,227
Dividends—Common Stock and Class B Common Stock					(43,942)	(43,942)
Foreign currency translation adjustments				(1,314)		(1,314)
Conversion of Class B Common Stock into Common Stock	1	(1)				—
Balance at December 31, 1985	26,236	5,101	54,006	(8,579)	651,135	727,899
Net income					132,764	132,764
Dividends—Common Stock and Class B Common Stock					(48,146)	(48,146)
Foreign currency translation adjustments				2,456		2,456
Conversion of Class B Common Stock into Common Stock	1	(1)				—
Three-for-one stock split	52,474	10,200			(62,674)	—
Purchase and Retirement of Common Stock	(3,825)		(2,197)		(80,882)	(86,904)
Incentive plan distribution			(128)			(128)
Balance at December 31, 1986	74,886	15,300	51,681	(6,123)	592,197	727,941
Net income					148,171	148,171
Dividends—Common Stock and Class B Common Stock					(51,467)	(51,467)
Foreign currency translation adjustments				8,161		8,161
Conversion of Class B Common Stock into Common Stock	3	(3)				—
Incentive plan distribution			(396)			(396)
Balance at December 31, 1987	$74,889	$15,297	$51,285	$ 2,038	$688,901	$832,410

The notes to consolidated financial statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies employed by the Corporation are discussed below and in Notes 7 and 8.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries after elimination of intercompany accounts and transactions.

Investments

Short-term investments are stated at the lower of cost or market. Investments in affiliated companies accounted for on the equity method are included in "Investments and Other Assets."

Commodities Futures Contracts and Options

In connection with the procurement of major commodities, principally cocoa and sugar, the Corporation enters into commodities futures contracts and options as deemed appropriate to reduce its exposure to future price increases for anticipated manufacturing requirements. Gains and losses on such futures contracts and options are deferred and recognized in cost of sales when the related product is manufactured and sold.

Inventories

The majority of the Consumer Foods inventories are valued under the last-in, first-out (LIFO) method at amounts that do not exceed realizable values. The remaining inventories are stated at the lower of first-in, first-out (FIFO) cost or market. LIFO cost of inventories valued using the LIFO method was $197,732,000 in 1987 and $172,685,000 in 1986. Total year-end inventories were as follows:

December 31,	**1987**	1986
(in thousands of dollars)		
Raw materials	**$162,315**	$171,160
Goods in process	**33,893**	30,575
Finished goods	**170,564**	131,673
Inventories at FIFO	**366,772**	333,408
Adjustment to LIFO	**(81,354)**	(95,899)
Total inventories	**$285,418**	$237,509

Property, Plant and Equipment

Depreciation and amortization of buildings, machinery and equipment, and capitalized leases are computed using the straight-line method. Property, plant and equipment balances include construction in progress in the amount of $39,701,000 at December 31, 1987 and $45,554,000 at December 31, 1986.

Intangibles Resulting From Business Acquisitions

Intangible assets resulting from business acquisitions principally consist of the excess of the acquisition cost over the fair value of the net assets of businesses acquired (goodwill). Goodwill is amortized on a straight-line basis over periods not exceeding 40 years. Other intangible assets are amortized on a straight-line basis over their estimated useful lives. The increase during 1987 was primarily the result of the acquisition of Nabisco Brands Ltd.'s Canadian confectionery and snack nut businesses.

Accumulated amortization of intangible assets resulting from business acquisitions was $18,361,000 and $12,262,000 at December 31, 1987 and 1986, respectively.

Foreign Currency Translation

For foreign entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rates during the period. Resulting translation adjustments are recorded in a separate component of stockholders' equity, "Cumulative Foreign Currency Translation Adjustments." For foreign entities operating in highly inflationary economies, nonmonetary assets and liabilities are translated at historical exchange rates and related translation gains and losses are included in results of operations. Foreign exchange gains and losses included in the consolidated statements of income were not material.

Promotion and Development Expenses

The costs of advertising and promotion ($279,677,000 in 1987, $218,148,000 in 1986 and $193,036,000 in 1985) and research and development ($13,692,000 in 1987, $13,225,000 in 1986 and $11,181,000 in 1985) are expensed in the year incurred.

Interest Expense

Interest expense, net consisted of the following:

For the years ended December 31,	**1987**	1986	1985
(in thousands of dollars)			
Long-term debt	**$21,382**	$10,303	$ 9,883
Capitalized leases	**3,223**	3,046	2,908
Short-term debt	**3,436**	3,314	8,277
Capitalized interest	**(2,425)**	(3,642)	(2,520)
	25,616	13,021	18,548
Interest income	**(905)**	(3,222)	(6,619)
	$24,711	$ 9,799	$11,929

2. ACQUISITIONS AND DIVESTITURES

On June 29, 1987, the Corporation acquired the assets and trademark rights of Nabisco Brands Ltd.'s Canadian confectionery and snack nut businesses (Canadian Confectionery Operation) for approximately $162 million. The Corporation also assumed certain long-term debt. The businesses acquired include bar candy sold under the brands *Oh Henry!* and *Lowney*, hard roll candy sold under the brand names *Life Savers* and *Breath Savers*, peanuts and other nuts sold under the brand name *Planters*, chocolate chips sold under the brand *Chipits*, boxed chocolates sold under the *Moirs* brand name and gum and chewy candy sold under the *Care*Free* and *Bubble Yum* brands.

In October 1986, the Corporation acquired The Dietrich Corporation by the purchase of its outstanding shares of capital stock for approximately $100 million plus an amount equal to acquired cash and short-term investments. The acquired operations consist of Luden's, maker of *Luden's* cough drops, *5th Avenue* candy bar and *Mello Mint* peppermint patties, and Queen Anne, a producer of chocolate covered cherries.

In 1986, the Corporation purchased Idlenot Farm Restaurants, Inc., a chain of 12 restaurants located in Vermont, New Hampshire and New York, and Litchfield Farm Shops, Inc., a chain of 23 restaurants in Connecticut. These acquisitions were made in July and December, respectively. In September 1985, the Corporation purchased the stock of Marvin Franklin Enterprises, Inc., a chain of 12 restaurants located in Pennsylvania.

The above acquisitions were accounted for as purchases, and accordingly, results subsequent to the dates of acquisition are included in the consolidated financial statements. Had the Canadian Confectionery Operation been acquired at the beginning of each period and the results thereof included in consolidated results, pro forma consolidated net sales, net income and net income per share would have been as follows:

For the years ended December 31,	**1987**	1986
(in thousands of dollars except for per share amounts)	*(Unaudited)*	
Net sales	**$2,489,224**	$2,303,297
Net income	**147,274**	133,843
Net income per share	**1.63**	1.43

The pro forma results are not necessarily reflective of the actual results which would have occurred if the acquisition had been in effect since the assumed dates, nor are they necessarily indicative of future combined results. Had the results of the other acquisitions during the period 1985 through 1987 been included in the pro forma data, the effect would not have been material.

In December 1986, the Corporation formed a joint venture in Brazil with the Bunge Born Group. Under the joint venture agreement, a Brazilian pasta unit of the Bunge Born Group was combined with Petybon. Petybon, a producer of pasta, biscuit and margarine products, was a 100% owned subsidiary of the Corporation prior to the joint venture agreement. The Corporation retained a 45% equity interest in the joint venture. Accordingly, the Corporation adopted the equity method of accounting effective December 1986.

In October 1986, the Corporation sold its 22½% interest in Chadler Industrial de Bahia S.A., a cocoa bean processor located in Salvador, Bahia, Brazil. The sales price approximated the Corporation's investment.

In November 1985, the Corporation sold the stock of Cory Food Services, Inc. and Cory Canada Inc., wholly-owned subsidiaries of the Corporation. The 1985 after-tax loss from discontinued operations of $8.4 million ($.09 per share) includes both 1985 operating losses and the loss on disposal.

3. CAPITAL STOCK

In 1987, the Corporation amended its Restated Certificate of Incorporation to increase the authorized number of shares of capital stock from 230,000,000 to 530,000,000. At December 31, 1987, of the authorized shares of capital stock, 450,000,000 shares were designated as Common Stock, 75,000,000 shares as Class B Common Stock (Class B Stock), and 5,000,000 shares as Preferred Stock, each class having a par value of one dollar per share.

The Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors, with the Common Stock having one vote per share and the Class B Stock having 10 votes per share. However, the Common Stock, voting separately as a class, is entitled to elect one-sixth of the Board of Directors. With respect to dividend rights, the Common Stock is entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Shares of the Class B Stock were issued in a one-time-only exchange offer to Common Stock holders on a share-for-share basis in late 1984. Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 1987, 3,000 shares of Class B Stock were converted into Common Stock, and during 1986, 4,320 shares of Class B Stock were converted into Common Stock (number of shares adjusted for the three-for-one stock split effective September 15, 1986). At December 31, 1987, there was a combined total of 90,186,336 shares of both classes outstanding. No shares of the Preferred Stock were issued or outstanding.

Hershey Trust Company, as Trustee for Milton Hershey School, as institutional fiduciary for estates and trusts unrelated to Milton Hershey School, and as direct owner of investment shares, held a total of 23,441,399 shares of the Common Stock, and, as Trustee for Milton Hershey School, held 15,153,003 shares of the Class B Stock at December 31, 1987, and is entitled to cast approximately 77% of the total votes of both classes of the Corporation's common stock.

Net income per share has been computed based on the weighted average number of shares of the Common Stock and the Class B Stock outstanding during the year (90,186,336 in 1987; 93,508,322 in 1986 and 94,011,336 in 1985) as adjusted for the three-for-one stock split effective September 15, 1986. The decrease in weighted average shares outstanding reflects the Corporation's purchase of 3,825,000 shares of Common Stock from Hershey Trust Company, as Trustee for Milton Hershey School, in November of 1986. These shares were retired and became authorized but unissued shares of Common Stock. Dividends paid per share have also been adjusted for the three-for-one stock split.

4. SHORT-TERM DEBT

The Corporation maintained lines of credit arrangements with commercial banks, under which it could borrow up to $150 million at December 31, 1987 and $100 million at December 31, 1986 at the lending banks' prime commercial interest rates or lower. These lines of credit, which may be used to support commercial paper borrowings, may be terminated at the option of the banks or the Corporation. At December 31, 1987, the Corporation had outstanding commercial paper borrowings of $55,463,000 against its supporting lines of credit. There were no borrowings under these lines of credit or outstanding commercial paper borrowings at December 31, 1986.

Lines of credit are supported by commitment fee and/or compensating balance arrangements. The fees range up to ¼% per annum of the commitment. While there were no compensating balance agreements which legally restrict these funds, the Corporation maintained balances of up to 3¾% of commitments under these lines of credit during 1987 and 1986.

The average outstanding balance of short-term debt was $45,132,000 in 1987 and $12,713,000 in 1986. The 1987 average reflects domestic borrowings under lines of credit and commercial paper, which were used to fund seasonal working capital requirements and finance the acquisition of the Canadian Confectionery Operation on an interim basis. The 1986 average reflects foreign borrowings in Brazil and domestic borrowings under both lines of credit and commercial paper. Domestic borrowings in 1986 were used to fund seasonal working capital requirements and provide interim financing for the acquisition of The Dietrich Corporation and purchase of 3,825,000 shares of the Corporation's Common Stock. Maximum short-term borrowings at any month-end were $117,748,000 and $109,710,000 in 1987 and 1986, respectively.

As a result of maintaining a consolidated cash management system, the Corporation maintains overdraft positions at certain banks. Such overdrafts, which are included in accounts payable, were $39,542,000 and $23,747,000 at December 31, 1987 and 1986, respectively.

5. LONG-TERM DEBT

Long-term debt and capitalized lease obligations at December 31, 1987 and 1986 consisted of the following:

(in thousands of dollars)	**1987**	1986
8.7% Senior Notes due 1988-1992	**$ 10,000**	$ 12,000
7.0% Notes due 1989	**50,000**	50,000
Medium-Term Notes, 8.45% to 9.92% (average rate 9.13%), due 1990-1998	**100,000**	—
7.25% Sinking Fund Debentures due 1997	**1,023**	1,023
6.875% Industrial Revenue Bonds due 2000-2005	**4,000**	4,000
10.4% Industrial Revenue Bonds due 2002	**1,000**	1,000
9.5% Sinking Fund Debentures due 2009	**56,250**	63,000
10.625% Pollution Control Revenue Bonds due 2012	**2,100**	2,100
9.125% Sinking Fund Debentures due 2016	**50,000**	50,000
Other obligations, net	**5,370**	8,696
Capitalized lease obligations	**32,338**	27,373
	312,081	219,192
Less—current portion	**5,986**	8,400
Total long-term debt	**$306,095**	$210,792

On June 30, 1987, the Corporation entered into a Distribution Agreement relating to the issuance and sale of up to $100 million aggregate principal amount of Medium-Term Notes (the Notes) under the Corporation's registration statement filed April 18, 1986, pursuant to Rule 415 of the Securities Act of 1933, as amended. As of December 31, 1987, $70,000,000 of the Notes had been issued. In February 1988, the Corporation issued the remaining $30,000,000 of the Notes. The proceeds from issuance of the Notes have been used to partially repay commercial paper notes which had been issued to finance the acquisition of the Canadian Confectionery Operation. Accordingly, $30,000,000 of short-term commercial paper outstanding at December 31, 1987 has been included as Medium-Term Notes in the table and classified as long-term debt.

On November 25, 1986, the Corporation issued $50,000,000 of 7% Notes due in 1989 and $50,000,000 of 9⅛% Sinking Fund Debentures due in 2016. The proceeds were used to substantially repay short-term borrowings incurred to finance the acquisition of The Dietrich Corporation and the purchase of 3,825,000 shares of the Corporation's Common Stock.

Aggregate annual maturities and sinking fund requirements, net of repurchased debentures and exclusive of capitalized lease obligations, are: 1988, $2,608,000; 1989, $53,435,000; 1990, $16,909,000; 1991, $20,785,000; 1992, $25,588,000.

6. LEASES

Total rent expense for all operating leases, which pertain principally to certain administrative buildings, distribution facilities, restaurants and transportation equipment, was $27,544,000 in 1987, $23,799,000 in 1986 and $22,039,000 in 1985.

Future minimum lease payments under noncancelable leases with an original term in excess of one year as of December 31, 1987 are shown in the accompanying table.

(in thousands of dollars)	**Operating Leases**	**Capital Leases**
1988	$ 11,369	$ 6,841
1989	12,936	6,151
1990	12,268	5,780
1991	11,208	5,720
1992	10,120	4,949
1993 and beyond	173,760	26,600
Total minimum lease payments	$231,661	$ 56,041

The total minimum lease payments under capital leases include $23,703,000 of imputed interest. Capital leases primarily pertain to restaurant facilities and data processing equipment.

7. INCOME TAXES

The provision for Federal and state income taxes is based on income from continuing operations before income taxes as reported in the financial statements. Income tax benefits relating to discontinued operations in 1985 are included in the "Loss from Discontinued Operations" in the Consolidated Statements of Income. Investment and other tax credits are recognized as a reduction in the provision using the flow-through method.

Deferred income taxes are provided to reflect timing differences between reported results of operations for financial statement and income tax purposes. Timing differences relate primarily to accelerated depreciation and employee benefit plan contributions. In 1987, the Corporation modified its tax treatment of certain insurance, marketing and employee benefit expenses. While these expenses continue to be recognized currently for financial statement purposes, the Corporation now deducts such amounts for income tax purposes when paid. This change necessitated a cumulative adjustment which served to increase the current provision for income taxes with an offsetting decrease in the deferred provision in 1987. The provision for income taxes on income from continuing operations was as follows:

For the years ended December 31, *(in thousands of dollars)*	**1987**	1986	1985
Current	**$131,103**	$101,581	$ 81,996
Deferred	**(9,872)**	26,488	30,268
Provision for income taxes	**$121,231**	$128,069	$112,264

The following table reconciles the provision for income taxes with the amount computed by applying the Federal statutory rate:

For the years ended December 31,	**1987**		1986		1985	
(in thousands of dollars)	**Amount**	**%**	Amount	%	Amount	%
Income taxes computed at statutory rate	**$107,761**	**40.0**	$119,983	46.0	$107,140	46.0
Increase (reduction) resulting from:						
State income taxes, net of Federal income tax benefits	**11,862**	**4.4**	11,522	4.4	10,857	4.7
Investment tax credit	**(361)**	**(.1)**	(2,489)	(.9)	(5,348)	(2.3)
Nondeductible acquisition costs	**2,934**	**1.1**	1,835	.7	1,718	.7
Payroll tax credits and other	**(965)**	**(.4)**	(2,782)	(1.1)	(2,103)	(.9)
Provision for income taxes	**$121,231**	**45.0**	$128,069	49.1	$112,264	48.2

The Tax Reform Act of 1986 (the Act) reduced the Federal statutory corporate income tax rate from 46% to 40% for the calendar year 1987 and to 34% for subsequent years. Additionally, the Act retroactively eliminated investment tax credits for capital investments initiated subsequent to December 31, 1985. The elimination of investment tax credits in 1986 (approximately $3.6 million), resulting in an increase in the effective income tax rate, was recorded in the fourth quarter of 1986 in accordance with the Financial Accounting Standards Board Technical Bulletin, "Accounting for Certain Effects of the Tax Reform Act of 1986." The reduction in the Corporation's effective income tax rate in 1987 is due to the reduction in the Federal statutory corporate income tax rate.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." The Corporation is required to adopt the new accounting and disclosure rules no later than 1989, although earlier implementation is permitted. The Corporation decided not to implement the new standard in 1987. When the Corporation does adopt the new accounting rules, it may record the entire catch-up effect in that year or it may retroactively restate prior financial statements. The Corporation has not decided which option it will utilize or in which year it will implement the change. However, management believes that, based on the current Federal statutory corporate income tax rate, when the change in accounting is adopted using either method the impact on net income will be favorable.

8. RETIREMENT PLANS AND OTHER BENEFITS

The Corporation and its subsidiaries sponsor a number of defined benefit retirement plans covering substantially all employees. Plans covering salaried employees provide retirement benefits based on career average or final pay compensation as defined within the provisions of the individual plans, while plans covering hourly employees generally provide benefits based on years of service. The Corporation's policy is to fund the normal cost plus amounts required to amortize actuarial gains and losses and prior service costs over periods ranging from 15 to 30 years. Plan assets are invested in a broadly diversified portfolio consisting primarily of domestic and international common stocks and fixed income securities. The Corporation also participates in several multiemployer retirement plans which provide defined benefits to employees covered under certain collective bargaining agreements.

In 1986, the Corporation adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (FAS No. 87), for all domestic retirement plans, which reduced pension expense for 1986 by approximately $7.3 million. In the fourth quarter of 1987, the Corporation adopted FAS No. 87 for its Canadian plans. The effect was immaterial. In accordance with the provisions of FAS No. 87, pension expense for the domestic plans for 1985 and the Canadian plans for 1986 and 1985 has not been restated.

The following is a summary of consolidated pension expense for 1987 and 1986:

For the years ended December 31, *(in thousands of dollars)*	**1987**	1986
Corporate sponsored pension plans:		
Domestic	**$7,041**	$7,433
Canadian	**593**	221
Multiemployer plans	**1,025**	558
Other	**420**	355
Total pension expense	**$9,079**	$8,567

Consolidated pension expense for the year ended December 31, 1985 was $13,810,000.

Pension expense for the domestic and Canadian plans for 1987 and the domestic plans for 1986 included the following components:

For the years ended December 31, *(in thousands of dollars)*	**1987**	1986
Service cost (benefits earned during the period)	**$11,672**	$ 9,758
Interest cost on projected benefit obligation	**18,911**	16,689
Investment return on plan assets	**(17,804)**	(31,514)
Net amortization and deferral	**(5,145)**	12,500
Corporate sponsored pension plans	**$ 7,634**	$ 7,433

The following table sets forth the funded status and amounts recognized in the consolidated balance sheets for the domestic and Canadian plans as of December 31, 1987 and for the domestic plans as of December 31, 1986:

	December 31, 1987		December 31, 1986	
(in thousands of dollars)	**Assets Exceed Accumulated Benefits**	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:				
Vested benefit obligation	**$176,493**	**$ 6,290**	$162,521	$ 4,101
Accumulated benefit obligation	**$191,264**	**$ 8,864**	$173,498	$ 5,272
Actuarial present value of projected benefit obligation	**$240,151**	**$ 16,432**	$210,123	$ 9,154
Plan assets at fair value	**259,556**	**1,962**	237,670	—
Plan assets greater than (less than) the projected benefit obligation	**19,405**	**(14,470)**	27,547	(9,154)
Net (gain) loss unrecognized at date of transition	**(7,095)**	**5,820**	(6,862)	5,890
Unrecognized net (gain) loss from past experience different than that assumed	**5,151**	**3,001**	(12,784)	(75)
Prepaid pension expense (pension liability)	**$ 17,461**	**$ (5,649)**	$ 7,901	$(3,339)

8. RETIREMENT PLANS AND OTHER BENEFITS *(continued)*

The projected benefit obligation for the plans was determined using an assumed discount rate of 8.25% in 1987 and 8.5% in 1986. For both years the assumed long-term compensation increase rate was principally 6% and the assumed long-term rate of return on plan assets was 9.5%.

The actuarial present value of consolidated accumulated benefits for the Corporate sponsored Canadian pension plans at April 1, 1986 was $2,535,000 (of which $186,000 was nonvested), compared with market value of net assets available for benefits of $4,661,000.

The Corporation and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Corporation's domestic employees become eligible for these benefits at normal retirement age. Retiree health care and life insurance premiums of $2,191,000, $2,250,000 and $2,027,000 were expensed as paid during 1987, 1986 and 1985, respectively.

9. INCENTIVE PLAN

On February 11, 1987, the Board of Directors adopted, and the stockholders subsequently approved, the 1987 Key Employee Incentive Plan (1987 Plan). The 1987 Plan replaced the Management Incentive Plan established in 1975 (1975 Plan). The 1975 Plan provided for long-term incentives in the form of awards of performance stock units to senior executives and key employees. The long-term portion of the 1987 Plan provides for grants or awards to senior executives and key employees of one or more of the following: performance stock units, nonqualified stock options (stock options), stock appreciation rights and restricted stock units. Stock options are granted at exercise prices of not less than 100% of the fair market value of a share of Common Stock at the time the option is granted and are exercisable for periods no longer than 10 years from the date of grant. In 1987, 47,150 shares were granted at an exercise price of $28.00 per share. None were exercised or expired.

As of December 31, 1987, 267,551 contingent performance stock units have been granted for potential future distribution for cycles ending December 31, 1987, 1988 and 1989. Similar to the 1975 Plan, the 1987 Plan provides for the deferral of performance stock unit awards by participants. Deferred performance stock units and accumulated dividend amounts totaled 451,759 shares at December 31, 1987. No stock appreciation rights or restricted stock units have been granted or awarded.

10. QUARTERLY DATA (Unaudited)

The following is a summary of quarterly data for the years 1987 and 1986. Per share data has been restated to reflect the three-for-one stock split effective September 15, 1986:

(in thousands of dollars except shares and per share amounts)

Year 1987	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	**$590,249**	**$497,745**	**$680,080**	**$665,719**	**$2,433,793**
Gross profit	**190,746**	**166,797**	**231,798**	**232,401**	**821,742**
Net income	**32,894**	**27,021**	**47,738**	**40,518**	**148,171**
Net income per share	**.36**	**.30**	**.53**	**.45**	**1.64**
Year 1986	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	$507,996	$450,201	$596,446	$614,971	$2,169,614
Gross profit	163,721	148,760	197,601	206,092	716,174
Net income	27,011	24,577	43,539	37,637	132,764
Net income per share	.29	.26	.46	.41	1.42

The weighted average number of shares outstanding was 90,186,336 in 1987, 94,011,336 for the first, second and third quarters of 1986, 92,058,144 for the fourth quarter of 1986 and 93,508,322 for the year 1986.

11. INDUSTRY SEGMENT

Industry segment information is shown on pages 20 through 22.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Hershey Foods Corporation is responsible for the financial statements and other financial information contained in this report. The Corporation believes that the financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

The Corporation maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. The Corporation believes its system provides an appropriate balance in this regard. The Corporation maintains an Internal Auditing Department which reviews the adequacy and tests the application of internal accounting controls.

The financial statements have been examined by Arthur Andersen & Co., independent public accountants, whose appointment was ratified by stockholder vote at the stockholders' meeting held on April 27, 1987. Their report expresses an opinion that the Corporation's financial statements are fairly stated in conformity with generally accepted accounting principles, and they have indicated to us that their examination was performed in accordance with generally accepted auditing standards and, accordingly, included reviewing the internal accounting controls and conducting other auditing procedures they deemed necessary.

The Audit Committee of the Board of Directors of the Corporation, consisting solely of outside directors, meets regularly with the independent public accountants, internal auditors and management to discuss, among other things, the audit scopes and results. Arthur Andersen & Co. and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of Hershey Foods Corporation:

We have examined the consolidated balance sheets of Hershey Foods Corporation (a Delaware corporation) and subsidiaries as of December 31, 1987 and 1986 and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1987 and 1986 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1987 in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

New York, N.Y.
February 5, 1988

HERSHEY FOODS CORPORATION

SIX-YEAR CONSOLIDATED FINANCIAL SUMMARY

(all dollars and shares amounts in thousands except market price and per share statistics)

	1987	1986	1985	1984	1983	1982
Summary of Earnings[a]						
Net Sales	**$ 2,433,793**	2,169,614	1,996,154	1,848,492	1,662,663	1,565,736
Cost of Sales	**$ 1,612,051**	1,453,440	1,355,789	1,269,801	1,145,867	1,084,748
Selling, General and Administrative	**$ 527,629**	445,542	395,523	355,849	310,115	301,586
Interest Expense, net	**$ 24,711**	9,799	11,929	10,349	15,814	7,859
Income Taxes	**$ 121,231**	128,069	112,264	102,058	89,895	77,375
Income from Continuing Operations	**$ 148,171**	132,764	120,649	110,435	100,972	94,168
(Loss) from Discontinued Operations	**$ —**	—	(8,422)	(1,753)	(806)	—
Net Income	**$ 148,171**	132,764	112,227	108,682	100,166	94,168
Income Per Share from Continuing Operations	**$ 1.64**	1.42	1.28	1.17	1.07	1.00
Net Income Per Share	**$ 1.64**	1.42	1.19	1.16	1.07	1.00
Dividends Paid Per Share of Common Stock	**$ .580**	.520	.475	.413	.367	.333
Dividends Paid Per Share of Class B Common Stock	**$ .525**	.472	.428	.105	—	—
Weighted Average Number of Shares of Common Stock and Class B Common Stock Outstanding During the Year	**90,186**	93,508	94,011	94,011	94,011	94,011
Income from Continuing Operations as a Percentage of Net Sales	**6.1%**	6.1%	6.0%	6.0%	6.1%	6.0%
Financial Statistics						
Capital Additions	**$ 107,663**	135,828	114,449	87,049	105,244	116,736
Depreciation[a]	**$ 64,076**	55,987	49,644	41,322	35,570	30,681
Advertising[a]	**$ 105,153**	91,236	83,835	78,570	68,374	64,046
Current Assets	**$ 484,867**	393,420	412,290	385,321	336,605	291,628
Current Liabilities	**$ 299,769**	222,143	195,322	202,953	151,634	148,893
Working Capital	**$ 185,098**	171,277	216,968	182,368	184,971	142,735
Current Ratio	**1.6:1**	1.8:1	2.1:1	1.9:1	2.2:1	2.0:1
Long-Term Debt	**$ 306,095**	210,792	110,169	125,236	127,990	140,250
Capitalization Ratio	**29%**	23%	14%	17%	18%	23%
Stockholders' Equity	**$ 832,410**	727,941	727,899	660,928	596,037	532,495
Total Assets	**$ 1,645,240**	1,356,303	1,197,432	1,122,567	983,944	904,754
Return on Average Stockholders' Equity	**19.0%**	18.2%	16.2%	17.3%	17.8%	18.8%
After-Tax Return on Average Invested Capital	**13.5%**	13.5%	12.7%	13.5%	13.8%	14.3%
Stockholders' Data						
Outstanding Shares of Common Stock and Class B Common Stock at Year-End	**90,186**	90,186	94,011	94,011	94,011	94,011
Market Price of Common Stock At Year-End	**$ 24½**	24⅝	17⅛	12⅞	10½	9⅜
Range During Year	**$37¾–20¾**	30–15½	18⅜–11⅝	13¾–9⅜	11⅝–8⅛	9⅞–5⅜
Number of Common Stock and Class B Common Stock Holders at Year-End	**29,151**	23,502	17,529	16,729	16,467	16,033
Employee Data[a]						
Payrolls	**$ 466,941**	430,792	391,781	354,422	326,615	305,651
Full-Time Employees at Year-End	**16,200**	15,980	15,240	14,410	13,510	13,600

Notes:

[a] Amounts for 1984 and 1983 have been restated for discontinued operations. Amounts for 1982 have not been restated to reflect discontinued operations due to immateriality.

[b] All shares and per share amounts have been adjusted for the two-for-one stock split effective September 15, 1983 and the three-for-one stock split effective September 15, 1986.

[c] Financial statistics include certain reclassifications which have been made to the December 31, 1982 consolidated financial statements.

DIRECTORS AND SENIOR MANAGEMENT

As of March 1, 1988

BOARD OF DIRECTORS

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Richard T. Baker
Consultant, Ernst & Whinney certified public accountants Delray Beach, Fla.

Howard O. Beaver, Jr.
Retired Chairman of the Board Carpenter Technology Corporation Reading, Pa.

John F. Burlingame
Retired Vice Chairman of the Board and Executive Officer General Electric Company Stamford, Conn.

John C. Jamison
Dean, School of Business Administration The College of William & Mary Williamsburg, Va.

Dr. Sybil C. Mobley
Dean, School of Business and Industry Florida Agricultural and Mechanical University Tallahassee, Fla.

Francine I. Neff
Vice President and Director NETS Inc. privately-held investment company Albuquerque, N.M.

John M. Pietruski
Chairman and Chief Executive Officer Sterling Drug Inc. New York, N.Y.

H. Robert Sharbaugh
Retired Chairman and Chief Executive Officer Sun Company, Inc. Hilton Head Island, S.C.

Joseph P. Viviano
President Hershey Chocolate U.S.A.

Kenneth L. Wolfe
President and Chief Operating Officer

AUDIT COMMITTEE

Richard T. Baker, *Chairman*
John F. Burlingame
Dr. Sybil C. Mobley
Francine I. Neff
John M. Pietruski

COMPENSATION AND EXECUTIVE ORGANIZATION COMMITTEE

H. Robert Sharbaugh, *Chairman*
Howard O. Beaver, Jr.
John F. Burlingame
John C. Jamison
John M. Pietruski

EMPLOYEE BENEFIT COMMITTEE

John C. Jamison, *Chairman*
Howard O. Beaver, Jr.
Dr. Sybil C. Mobley
H. Robert Sharbaugh

EXECUTIVE COMMITTEE

Richard A. Zimmerman, *Chairman*
Joseph P. Viviano
Kenneth L. Wolfe

NOMINATING COMMITTEE

Francine I. Neff, *Chairperson*
Richard T. Baker
Richard A. Zimmerman

DIVISION PRESIDENTS

John F. Cauley, Jr.
President Friendly Ice Cream Corporation

David B. Conn
President Hershey Canada Inc.

Richard M. Marcks
President Hershey International

C. Mickey Skinner
President Hershey Pasta Group

Joseph P. Viviano
President Hershey Chocolate U.S.A.

CORPORATE OFFICERS

Richard A. Zimmerman
Chairman of the Board and Chief Executive Officer

Kenneth L. Wolfe
President and Chief Operating Officer

William Lehr, Jr.
Senior Vice President and Secretary

Michael F. Pasquale
Senior Vice President and Chief Financial Officer

Kenneth L. Bowers
Vice President Corporate Communications

Frank Cerminara
Vice President, Corporate Development and Commodities

Charles E. Duroni
Vice President and General Counsel

William P. Noyes
Vice President Human Resources

Dr. Barry L. Zoumas
Vice President Science and Technology

Thomas C. Fitzgerald
Treasurer

John B. Stiles
Controller and Chief Accounting Officer

EXECUTIVE OFFICES

100 Mansion Road East
Hershey, Pa. 17033

TRANSFER AGENT AND REGISTRAR

Manufacturers Hanover Trust Company
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Church Street Station
New York, N.Y. 10249

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen & Co.
1345 Avenue of the Americas
New York, N.Y. 10105

INVESTOR RELATIONS CONTACT

James A. Edris, Director
Investor Relations
14 East Chocolate Avenue
P.O. Box 814
Hershey, Pa. 17033-0814
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Hershey, Pennsylvania 17033, U.S.A.